The IRA Handbook

William J. Wagner, J.D., LL.M., CLU

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Part I:
IRA BASICS

Chapter 1

INTRODUCTION

In general, an individual retirement account (IRA) can be thought of as a tax-favored investment vehicle. Originally IRAs were intended as retirement accounts for individuals who were not covered by any employer retirement plan and into which deductible contributions could be made, but amounts were fully taxable when distributed. Over the years many changes have occurred with respect to IRAs; in recent years the changes have come increasingly frequently.

The types of IRAs have multiplied. Now there are traditional IRAs (see Chapter 4), Roth IRAs (see Chapter 5), Education IRAs (see Chapter 6), SEP IRAs (including SAR-SEP IRAs — see Chapter 7), and SIMPLE IRAs (see Chapter 8). Each of these IRA types is discussed individually in Part II of this book.

Contributions can now be made on a nondeductible basis as well as a deductible basis. Employers can make contributions for employees. Employees can elect to make salary reduction contributions to certain IRAs. The amount which can be contributed on a deductible or nondeductible basis is now often subject to phaseout based upon the amount of an individual's income.

Amounts can generally be accumulated within an IRA on a tax-deferred (or possibly tax-free) basis. However, certain actions (e.g., loans) may be prohibited and certain investments are not permitted.

Distributions (see Chapter 13) from IRAs may now be received tax-free in some circumstances. Otherwise, distributions are generally taxed on a pro-rated basis. Distributions made before age 59½ may be subject to a premature distribution penalty tax. Required minimum distributions are generally required at the earlier of age 70½ or death. However, Education IRAs generally require earlier distribution, while Roth IRAs generally permit later distributions.

Rollovers (see Chapter 11) are permitted on a tax-free basis between certain IRAs (as well as qualified plans) but not between others. However, a rollover or conversion (see Chapter 12) to a Roth IRA is generally a taxable event.

The balance of Part I of this book is devoted to comparing some of the variations in IRA features (see generally Chapter 2) or discussing some of the common features (see generally Chapter 3) discussed above, as well as other features such as how IRAs are taxed in the event of a divorce, what tax filings are required of an IRA participant, and what withholding is required with respect to IRAs.

IRAs can now be created for education purposes, for purchase of a home, as a disability fund, as a substitute for a qualified plan by employers, as a holding vehicle for amounts rolled over from a qualified plan, as a dynastic generational transfer device, as well as for retirement purposes. See Chapter 10 for certain special purpose planning with an IRA.

IRAs can be created for various purposes, but other factors may determine whether an individual can make use of an IRA and whether a particular type of IRA may be useful. See Chapter 9 for a discussion of how to select an IRA.

Choosing an IRA beneficiary (see Chapter 14) is important for a variety of reasons, including benefiting a loved one, minimizing the effect of the required minimum distributions rules, and general estate planning.

IRAs are potentially subject to multiple taxes (see Chapter 15). These include transfer taxes such as the gift tax (see Chapter 16), estate tax (see Chapter 17), and generation-skipping transfer tax (see Chapter 18).

Chapter 2

COMPARISON OF IRAS

A number of IRA features that can vary depending on the type of IRA (i.e., traditional, Roth, Education, SEP, or SIMPLE) are discussed below. These include the following:

- contributions to IRAs, including deductible contributions, nondeductible contributions, employer contributions, and excess contributions;
- the treatment of investment and accumulations within an IRA;
- distributions, including distributions includable in income, premature distributions, and required distributions;
- rollovers; and
- withholding.

See Chapter 3 for a discussion of the following shared IRA features: the deduction of IRA expenses, who can be a trustee, how are investments accumulated in an IRA taxed, premature distributions, required minimum distributions, how IRAs are taxed in the event of a divorce, and what tax filings are required of an IRA participant.

CONTRIBUTIONS

Various types of contributions can be made to the different types of IRAs on either a deductible or a nondeductible basis. The different types of IRAs also have different maximum contribution amounts sometimes subject to various phaseouts based upon the amount of the individual's income. Certain IRAs are designed for employer contributions (including salary reduction contributions). Contributions to all IRAs must be made in cash. Excess contributions are generally subject to penalty taxes.

Figure 2.1

COMPARISON OF IRAS

	Traditional IRAs	Roth IRAs	Education IRAs
Deductible Contributions	Yes. $2,000, subject to phaseout.	No	No
Maximum Contributions Amount	$2,000, reduced by deductible contributions. Combined $2,000 limit for all traditional and Roth IRAs.	$2,000, subject to phaseout. Combined $2,000 limit for all traditional and Roth IRAs.	$500 per beneficiary, subject to phaseout.
Maximum Contributions Phaseout	For deductible contributions only. Adjusted gross income in 2000 of: $32,000-$42,000 (single return) $52,000-$62,000 (joint return, active participant) $150,000-$160,000 (joint, non-active participant) $0-$10,000 (separate return)	Modified adjusted gross income of: $150,000-$160,000 (joint return) $0-$15,000 (separate return) $95,000-$110,000 (all others)	Contributors with modified adjusted gross income of: $150,000-$160,000 (joint return) $95,000-$110,000 (all others)
Maximum Contribution Age	70½	None	18
Accumulations	Generally, tax-deferred.	Generally, tax-deferred (or tax-free).	Generally, tax-deferred (or tax-free).
Taxation of Distributions	Proration: nondeductible contributions excludable.	Contributions received tax-free. After 5 years: earnings tax-free after age 59½, after death, for disability, up to $10,000 lifetime for first-time homebuyer.	Tax-free for qualified higher education expenses. Prorated otherwise: earnings allocated other than to education includable.
Premature Distributions (10% penalty on amount includable in income)	Pre-age 59½ or death, unless an exception applies.	Pre-age 59½ or death, unless an exception applies.	Pre-death, unless an exception applies.
Required Minimum Distributions (50% penalty for failure)	Generally, at age 70½, over life expectancy of owner (or owner and beneficiary).	After death of owner. Generally, over beneficiary's life expectancy.	At earlier of death or age 30. No penalty, but entire account deemed distributed.

Figure 2.2

COMPARISON OF EMPLOYER-PROVIDED IRAS

	SEP IRAs	SAR-SEP IRAs	SIMPLE IRAs
New Plans Permitted	Yes	No	Yes
Maximum Employees	NA	25	100
Salary Reduction	No	Yes, if 50% of employees elect and 1.25 deferral percentage test met.	Yes
Maximum Salary Reduction	NA	$10,500 overall elective deferral limit.	$6,000.
Other Employer Contributions	Nondiscriminatory definite written allocation formula. (15% of comp max) ($25,500 max).	Nondiscriminatory definite written allocation formula. (15% of comp max) ($25,500 max).	Matching (3% of comp) ($6,000 max); or Nonelective (2% of comp) ($3,400 max).
Maximum Contribution Age	None	None	None
Accumulations	Generally, tax-deferred.	Generally, tax-deferred.	Generally, tax-deferred.
Taxation of Distributions	Generally, fully taxable. Proration if nondeductible contributions.	Generally, fully taxable. Proration if nondeductible contributions.	Fully taxable.
Premature Distributions (penalty on amount includable in income)	Pre-age 59½ or death, unless an exception applies. 10% penalty.	Pre-age 59½ or death, unless an exception applies. 10% penalty.	Pre-age 59½ or death, unless an exception applies. 10% penalty (25% first two years).
Required Minimum Distributions (50% penalty for failure)	Generally, at age 70½, over life expectancy of owner (or owner and beneficiary).	Generally, at age 70½, over life expectancy of owner (or owner and beneficiary).	Generally, at age 70½, over life expectancy of owner (or owner and beneficiary).

contributions for an individual to traditional IRAs and ... and employee contributions to a SEP IRA are subject to a combined overall limitation of the lesser of $2,000 or includable compensation.[1] While contributions to a particular type of these IRAs may be subject to phaseout based on the amount of the individual's income, this $2,000 amount is not subject to such phaseout. Therefore, any individual who has not attained age 70½ may always make a contribution equal to the lesser of $2,000 or includable compensation to some IRA. In the case of an individual earning less than such individual's spouse, the compensation of the individual's spouse may be added to the individual's own compensation to the extent that the spouse's compensation is in excess of any deductible contributions to a traditional or SEP IRA or contributions to a Roth IRA made by such spouse.

Education IRAs are subject to a separate limitation: $500 may be contributed in total by all contributors to all Education IRAs for the benefit of a beneficiary (who must be under age 18). With respect to a particular contributor, the $500 amount is subject to phaseout based on the amount of the contributor's income.

Employers may make contributions (including salary reduction contributions) to IRAs for employees subject to the limitations described below.

Deductible Contributions

Deductible contributions can be made by an individual to a traditional IRA or a SEP IRA. However, a deduction cannot be taken for contributions made to a traditional or SEP IRA in taxable years once the individual has attained age 70½.[2] Furthermore, a deduction generally cannot be taken for contributions to an IRA inherited from another individual.[3] An IRA received by the spouse of the former IRA owner upon such owner's death is not treated as an inherited IRA.[4]

Deductible contributions to traditional IRAs and deductible employee contributions to a SEP IRA are subject to a combined overall limitation of the lesser of $2,000 or includable compensation per year per individual.[5] The compensation of the lower earning spouse may be supplemented with compensation of the other spouse. If the individual is

an active participant in certain employer retirement plans, the $2,000 deductible amount is subject to phaseout based upon adjusted gross income.[6]

Thus, in the case of an active participant, the $2,000 amount is reduced by an amount equal to $2,000 multiplied by the ratio of the individual's adjusted gross income (AGI) in excess of an applicable dollar amount to $10,000 ($20,000 in the case of a joint return after 2006).

$$\$2{,}000 \times \frac{\text{AGI - applicable dollar amount}}{\$10{,}000} = \text{reduction}$$

Whenever the phaseout reduction is other than a multiple of $10, the reduction is rounded to the next lowest multiple of $10. However, where the $2,000 amount adjusted for phaseout based upon adjusted gross income is between $0 and $200, $200 is allowable as a deduction.

In the case of a joint return, the applicable dollar amount and the corresponding amount at which total phaseout occurs equals:

Taxable Year	Applicable Dollar Amount	Total Phaseout
1999	$51,000	$61,000
2000	$52,000	$62,000
2001	$53,000	$63,000
2002	$54,000	$64,000
2003	$60,000	$70,000
2004	$65,000	$75,000
2005	$70,000	$80,000
2006	$75,000	$85,000
2007-	$80,000	$100,00

However, in the case of a joint return where one spouse is an active participant and the other is not, the applicable dollar amount with respect to the spouse who is not an active participant is increased to $150,000; however, the $10,000 phaseout band remains at $10,000 (it does not increase to $20,000 as in the case of a joint return after 2006).[7] Thus, in such case, total phaseout occurs at $160,000.

In the case of other than a joint return or a married filing separate return, the applicable dollar amount and the corresponding amount at which total phaseout occurs equals:

Taxable Year	Applicable Dollar Amount	Total Phaseout
1999	$31,000	$41,000
2000	$32,000	$42,000
2001	$33,000	$43,000
2002	$34,000	$44,000
2003	$40,000	$50,000
2004	$45,000	$55,000
2005-	$50,000	$60,000

In the case of a married filing separate return of an active participant, the applicable dollar amount equals $0. Thus, in such case, total phaseout occurs at $10,000.

Example. In 1999, a single taxpayer, who is an active participant in a retirement plan and has adjusted gross income of $34,333, can make a deductible contribution to a traditional IRA or SEP IRA of $1,340. This is calculated as follows:

$$\$2{,}000 \times \frac{\text{AGI - applicable dollar amount}}{\$10{,}000} = \text{reduction}$$

round reduction down to next lowest multiple of $10

$2,000 - reduction = amount deductible

$$\$2{,}000 \times \frac{\$34{,}333 - \$31{,}000}{\$10{,}000} = \$667$$

round $667 to $660

$2,000 - $660 = $1,340

Nondeductible Contributions

Nondeductible contributions to traditional IRAs and nondeductible employee contributions to a SEP IRA are subject to a combined overall limitation equal to the lesser of $2,000 or compensation includable in income. This amount is reduced by any deductible contributions to a traditional IRA or SEP IRA.[8] However, nondeductible contributions to a traditional IRA or SEP IRA are not subject to any phaseout based upon adjusted gross income even if the individual or the individual's spouse is an active participant in certain employer retirement plans.

An individual can make nondeductible contributions to a Roth IRA up to the lesser of $2,000 or compensation includable in income. This amount is reduced by any contributions to a traditional IRA or employee contributions to a SEP IRA.[9] The $2,000 permissible contribution amount is subject to phaseout based upon modified adjusted gross income (MAGI).[10]

With respect to a Roth IRA, the $2,000 amount is reduced by an amount equal to $2,000 multiplied by the ratio of the individual's modified adjusted gross income in excess of an applicable dollar amount to $15,000 ($10,000 in the case of a joint return or a married filing separate return). Whenever the phaseout reduction is other than a multiple of $10, the reduction is rounded to the next lowest multiple of $10. However, where the $2,000 amount adjusted for phaseout based upon adjusted gross income is between $0 and $200, $200 may be contributed.

Thus, in the case of Roth IRAs, the applicable dollar amount and the corresponding amount at which total phaseout occurs equals:

Taxpayer Return	Applicable Dollar Amount	Total Phaseout
Married-Joint	$150,000	$160,000
Married-Separate	$0	$10,000
All Other	$95,000	$110,000

Nondeductible contributions can also be made to an Education IRA. A $500 maximum amount applies to all contributions made by anyone to any Education IRA on behalf of a particular beneficiary (under age 18) in a year. There is no requirement that the individual have compensation includable in income. This amount is not affected by any contributions to traditional and Roth IRAs.[11]

The $500 permissible contribution amount is subject to phaseout based upon the modified adjusted gross income of the contributor.[12] Thus, the $500 amount is reduced by an amount equal to $500 multiplied by the ratio of the individual's modified adjusted gross income (MAGI) in excess of $95,000 ($150,000 in the case of a joint return) to $15,000 ($10,000 in the case of a joint return). Thus, in the case of Education IRAs, the applicable dollar amount and the corresponding amount at which total phaseout occurs equals:

Taxpayer Return	Applicable Dollar Amount	Total Phaseout
Married-Joint	$150,000	$160,000
All Other	$95,000	$110,000

Employer Contributions

SEP IRAs and SIMPLE IRAs are designed for employer contributions (including salary reduction contributions in some cases). In addition, employer contributions can be made to traditional IRAs, Roth IRAs, or SEP IRAs as regular deductible or nondeductible contributions, subject to any limitations described above.

In the case of the special employer contributions (including salary reduction contributions), the employer takes a deduction for contributions and the employee excludes the employer contributions from income. In the case of regular employer deductible/nondeductible contributions, the employer takes a deduction for compensation paid the employee, the employee includes the compensation in income and the employee can take a deduction (see "Deductible Contributions," above), if the contribution is to a traditional IRA or SEP IRA, to the extent that the employee's deduction is not eliminated through phaseout.

An employer can take a deduction for contributions made to a SEP IRA during a year by the employer but not to exceed 15 percent of the employees' compensation.[13] In fact, in any year that the employer maintains a SEP IRA, the employer must contribute to the SEP IRA of any employee who (1) has attained age 21, (2) has performed service for the employer in at least three of the preceding five years, and (3) has compensation of at least $450 (as indexed for 2000). For this purpose, if the employee is eligible for salary reduction contributions to the SEP IRA for the year, the employer is considered to have contributed to the SEP IRA for the employee. Certain employees covered by collective bargaining and nonresident aliens can be excluded from required employer contributions to the SEP IRA.[14]

Employer contributions to a SEP IRA must be determined under a definite written allocation formula which specifies how an employee qualifies for employer contributions and how the amount of employer contributions is calculated.[15] Contributions to the SEP IRA by the

employer may not discriminate in favor of any highly compensated employee. Contributions to the SEP IRA by the employer will generally be considered discriminatory unless contributions bear a uniform relationship to compensation (not to exceed $170,000 as indexed for 2000) of each employee maintaining a SEP IRA.[16]

Employer contributions to a SEP IRA, as well as annual additions to other defined contribution plans of the employer maintained for the employee, are subject to a combined overall limitation equal to the lesser of 25 percent of compensation or $30,000. Prior to 2000, there was also a combined limit placed on contributions which could be made to all defined contribution plans (including employer contributions to a SEP IRA) and defined benefit plans maintained by the employer for the employee.

The employee can exclude employer contributions to a SEP IRA from income to the extent that such contributions do not exceed the lesser of 15 percent of compensation (determined without regard to the employer's contribution to the SEP IRA) or $30,000 (as indexed for 2000). Because of the $170,000 limitation (as indexed for 2000) on the amount of compensation that can be taken into account, the $30,000 dollar limit is actually $25,500 (15% x $170,000). The dollar limitation is reduced in the case of highly compensated employees in a SEP IRA that is integrated with Social Security.[17]

In years after 1996, salary reduction contributions to a salary reduction SEP IRA (SAR-SEP IRA) can be made only by employers that had SAR-SEP IRAs that permitted salary reduction contributions as of December 31, 1996 (an existing SAR-SEP IRA). Existing SAR-SEP IRAs are grandfathered on an employer basis; an employer with existing SAR-SEP IRAs can add new employees to the plan.

A SAR-SEP IRA permits an employee to elect to have the employer either (1) make elective employer contributions to the SAR-SEP IRA on behalf of the employee or (2) distribute the amount in cash to the employee.[18] If the employee takes cash, the distribution is includable in the employee's income. If the employee chooses salary reduction, the employee excludes the amount of the salary reduction contribution from income for the year of contribution.

Salary reduction contributions to a SAR-SEP IRA, as well as all other elective deferrals to retirement plans, are subject to a combined overall elective deferral limitation of $10,500 (as indexed for 2000) in a year.[19]

The only contributions permitted to a SIMPLE IRA are salary reduction contributions made by the employer for an employee and certain matching or nonelective contributions by the employer.[20] The employer takes a deduction for the salary reduction, matching, and nonelective contributions.[21] The employee excludes the salary reduction, matching, and nonelective contributions from income.[22]

The amount of salary reduction contributions that can be made for any employee in any year cannot exceed $6,000 (as indexed for 2000).[23]

If the employer elects matching contributions, the employer must contribute to the SIMPLE IRA an amount equal to the lesser of (1) the amount of the salary reduction contribution to the IRA for the employee, or (2) the applicable percentage of compensation for the year. The applicable percentage is three percent unless the employer elects for any year to use a lower percentage of not less than one percent. An applicable percentage rate of less than three percent cannot be used more than twice during any five-year period.

Alternatively, if the employer elects to make nonelective contributions, the employer contributes to the SIMPLE IRA of each eligible employee with at least $5,000 of compensation from the employer for the year an amount equal to two percent of compensation (not to exceed $170,000 as indexed for 2000). If this election is made, this amount is contributed without regard to whether the elective salary reduction contributions have been made.

In general, all employees of the employer maintaining a SIMPLE IRA who received at least $5,000 in compensation from the employer for the two preceding years and are reasonably expected to have $5,000 in compensation from the employer for the current year must be eligible to either make a salary reduction contribution election or receive nonelective contributions. Certain employees covered by collective bargaining and nonresident aliens need not be covered under the SIMPLE IRA.[24]

Excess Contributions

Contributions to IRAs in excess of the limitations above are generally subject to penalty taxes until corrected. Excess contributions can generally be corrected in the current year by distributing the excess contributions plus earnings thereon during such year (often including a grace period thereafter). Excess contributions can also be carried over and corrected in a later year through distributions or by making less contributions than the maximum allowed in such later year.

In general, excess contributions to traditional IRAs, Roth IRAs, and Education IRAs are subject to a six percent penalty tax payable by the individual; excess contributions to SEP IRAs and SIMPLE IRAs are subject to a 10 percent penalty tax payable by the employer.

ACCUMULATIONS/INVESTMENTS

Amounts earned within IRAs generally accumulate on a tax-deferred basis. Earnings are generally not taxable until distributed from the IRA (and possibly not even then). However, an IRA is taxed if it has unrelated business taxable income. Furthermore, part or all of the IRA may be deemed distributed if the IRA owner engages in a prohibited transaction, borrows on an annuity contract, pledges the account as security for a loan, purchases an endowment contract, or invests in certain collectibles.[25] An IRA account cannot invest in life insurance contracts.[26] The IRA can be in the form of an individual retirement annuity.[27]

See Chapter 3 on Shared IRA Features for additional information.

DISTRIBUTIONS

Distributions from an IRA may be subject to tax. Also, distributions may be subject to a premature distribution penalty tax to the extent includable in income. Furthermore, certain distributions are required; a penalty tax may apply if the distribution is not made.

Distributions Includable in Income

Distributions from an IRA generally represent a return of contributions and earnings on contributions. Nondeductible contributions to an

IRA are contributed on an after-tax basis; all other contributions and earnings on contributions have generally not been subject to tax. Therefore, the calculation of distributions from most IRAs is designed to prorate distributions to nondeductible contributions and exclude from income such portion of the distribution. The rules for Roth and Education IRAs are generally more favorable and may even permit tax free distributions.

In general, the formula for calculating the portion of a distribution from a traditional IRA, SEP IRA, or SIMPLE IRA that is excludable from income as attributable to nondeductible contributions to the IRA is:

$$\frac{\text{Unrecovered Nondeductible Contributions}}{\text{Total Account Balance + Distribution Amount + Outstanding Rollover}} \times \text{Distribution Amount}$$

All IRAs within a category (i.e., traditional, SEP, or SIMPLE) are treated as one in determining each of the above amounts. Unrecovered nondeductible contributions are determined as of the beginning of the year (i.e., before changes to the IRA account for the current year). The total account balance is determined as of the end of the year (i.e., increased by contributions and rollovers to the IRA, but reduced by distributions and rollovers from the IRA). The distribution amount and outstanding rollover is the total of such transactions occurring during the current year.

Proration is required with respect to a traditional IRA if nondeductible contributions have been made to the traditional IRA. Otherwise, distributions from a traditional IRA are generally fully includable in income.

Distributions from SEP IRAs and SIMPLE IRAs will usually consist entirely of employer contributions and earnings on contributions. Therefore, distributions from SEP IRAs and SIMPLE IRAs will usually be fully includable in income. Proration could be required if the employee made nondeductible contributions to the SEP or SIMPLE IRA.

However, in the case of Roth IRAs, distributions are treated as being made from contributions first, and nontaxable to the extent made from contributions. Additionally, certain distributions made at least five years

after the first contribution to a Roth IRA can be received tax-free. These distributions include the following:

- made on or after the date the Roth IRA owner turns 59½;
- made after the death of the Roth IRA owner;
- attributable to disability of the Roth IRA owner; or
- made to the Roth IRA owner ($10,000 lifetime limit) for purchase of a first home by the IRA owner, the IRA owner's spouse, or children, grandchildren, or ancestor of either.

In the case of Education IRAs, if distributions for the year do not exceed qualified higher education expenses for the year, distributions are excludable from gross income. Otherwise, a two-part proration occurs. This is done by first allocating the distribution between contributions and earnings (same as above since only nondeductible contributions can be made to an Education IRA). The portion of the distribution attributable to earnings is then allocated between distributions for qualified higher education expenses and all other distributions from the Education IRA. The portion of the distribution attributable to earnings allocated to other than qualified higher education expenses is includable in income.[28]

Thus, the two part formula for calculating the portion of a distribution from an Education IRA that is includable in income is:

$$\frac{\text{Unrecovered Nondeductible Contributions}}{\text{Total Account Balance + Distribution Amount + Outstanding Rollover}} \times \text{Distribution Amount} = \text{Regular Exclusion Portion}$$

Distribution - Regular Exclusion Portion = Distribution Attributable to Earnings

$$\frac{\text{Qualified Higher Education Expenses}}{\text{Aggregate Distributions}} \times \text{Distributions Attributable To Earnings} = \text{Excludable Portion}$$

Distribution Attributable to Earnings - Excludable Portion = Includable Portion

Premature Distributions

Distributions from an IRA made prior to age 59½ are subject to a 10 percent premature distribution penalty to the extent includable in income unless an exception applies. Exceptions include distributions:

(1) made after the death of the IRA owner;

(2) attributable to the IRA owner's disability;

(3) part of a series of substantially equal periodic payments made for the life or the joint life of the IRA owner and a designated beneficiary;

(4) made for medical care to the extent generally allowable as a medical expense deduction;

(5) made to the IRA owner who is unemployed for payment of health insurance premiums;

(6) made to the IRA owner for payment of qualified higher education expenses furnished to the IRA owner, the IRA owner's spouse, or children or grandchildren of either; or

(7) made to the IRA owner ($10,000 lifetime limit) for purchase of a first home by the IRA owner, the IRA owner's spouse, or children, grandchildren, or ancestor of either.

See Chapter 3 on Shared IRA Features for additional information.

Required Distributions

Certain distributions are required from a traditional IRA, Roth IRA, SEP IRA, or SIMPLE IRA or a 50 percent penalty tax applies. Such required minimum distributions must generally begin at age 70½ and distributions are generally made over the life expectancy of the IRA owner or the life expectancies of the IRA owner and designated beneficiary. In the case of a Roth IRA, required minimum distributions need not begin until after the death of the IRA owner. A spouse of an IRA owner who is the beneficiary of an IRA can generally elect to treat the IRA as the spouse's own at the death of the IRA owner.

An Education IRA must generally be distributed at the earlier of the beneficiary attaining age 30 or the death of the beneficiary. Such forced distributions can be avoided by changing to another beneficiary who is under age 30 and is related to the current beneficiary.

See Chapter 3 on Shared IRA Features for additional information.

ROLLOVERS

Rollovers are permitted between various retirement plans, IRAs, and tax sheltered annuities. In general, a rollover is a transfer of retirement assets from one plan to another by the participant or owner which is completed within 60 days of the distribution. The effect of a rollover is generally to avoid taxes and penalties upon what otherwise would be treated as a distribution.[29] See Chapter 11 regarding rollovers. Also, see Chapter 12 regarding conversions and Roth IRAs.

WITHHOLDING

When employer contributions (including salary reduction contributions) are made to a SEP IRA or SIMPLE IRA, such contributions may be subject to FICA (Social Security tax) or FUTA (federal unemployment tax). When distributions are made from any IRA, such distributions may be subject to income tax withholding.

Employer contributions to a SEP IRA are generally not subject to FICA or FUTA, or income tax withholding.[30] Salary reduction contributions to a SAR-SEP IRA are generally subject to FICA and FUTA, but not to income tax withholding.[31]

Salary reduction contributions to a SIMPLE IRA are not subject to income tax withholding; they are subject to FICA and FUTA.[32] Matching contributions and nonelective contributions to a SIMPLE IRA are not subject to FICA or FUTA, or to income tax withholding.[33]

Distributions from any IRA are distributions from a retirement plan subject to income tax withholding unless the individual elects to have withholding not apply. Thus, unless the election is made, periodic payments (annuity and similar payments) from an IRA are subject to withholding at regular withholding rates and nonperiodic

payments from an IRA are subject to withholding at a 10 percent rate.[34]

However, a conversion of a traditional IRA, a SEP IRA, or a SIMPLE IRA into a Roth IRA (a qualified rollover) is a distribution subject to the income tax withholding rules above. However, withholding was not required for a 1998 conversion using a trustee-to-trustee transfer from a traditional IRA to a Roth IRA (without regard to whether or not the individual elected to have no withholding).[35]

CHAPTER ENDNOTES

1. IRC Secs. 219(b)(1), 408(o)(2), 408A(c)(2).
2. IRC Sec. 219(d)(1).
3. IRC Sec. 219(d)(4).
4. See IRC Sec. 408(d)(3)(C)(ii).
5. IRC Sec. 219(b)(1).
6. IRC Sec. 219(g).
7. IRC Sec. 219(g)(7).
8. IRC Sec. 408(o)(2).
9. IRC Secs. 408A(c)(2), 219.
10. IRC Sec. 408A(c)(3).
11. IRC Sec. 530(b)(1)(A)(iii).
12. IRC Sec. 530(c).
13. IRC Sec. 404(h).
14. IRC Secs. 408(k)(2), 408(k)(8); IR-1999-80.
15. IRC Sec. 408(k)(5).
16. IRC Sec. 408(k)(3); IR-1999-80.
17. IRC Secs. 404(h), 402(h)(2)(B).
18. IRC Sec. 408(k)(6).
19. IRC Sec. 402(g)(1); IR-1999-80.
20. IRC Sec. 408(p)(1)(B).
21. IRC Sec. 404(m)(1).
22. IRC Secs. 402(k), 402(h)(1).
23. IRC Secs. 408(p)(2)(A)(ii), 408(p)(2)(E); Notice 98-4(D-2), 1998-2 IRB 26; IR-1999-80.
24. IRC Sec. 408(p)(4).
25. IRC Secs. 408(e), 408(m).
26. IRC Sec. 408(a)(3).
27. IRC Sec. 408(b).
28. IRC Secs. 530(d)(1), 530(d)(2), 72(b).
29. See IRC Sec. 408(d)(3).
30. IRC Secs. 3121(a)(5)(C), 3306(b)(5)(C), 3401(a)(12)(C).
31. Ibid.
32. IRC Secs. 3121(a)(5)(H), 3306(b)(5)(H), 3401(a)(12)(D).
33. Ibid.
34. IRC Sec. 3405.
35. Reg. §1.408A-6(A-13).

Chapter 3

SHARED IRA FEATURES

Certain features shared by most IRAs are discussed below. These include the following:

- the deduction of IRA expenses,
- who can be a trustee,
- how are investments accumulated in an IRA taxed,
- premature distributions,
- required minimum distributions,
- how IRAs are taxed in the event of a divorce, and
- what tax filings are required of an IRA participant.

See Chapter 2 for a comparison of certain IRA features: contributions to IRAs, including deductible contributions, nondeductible contributions, employer contributions, and excess contributions; distributions, including distributions includable in income, premature distributions, and required distributions; rollovers; and withholding.

IRA EXPENSE DEDUCTIONS

Certain expenses incurred in creating and maintaining an IRA may be deductible. Certain IRA administrative or trustee fees can be claimed as miscellaneous itemized deductions. Interest on amounts borrowed to buy or carry the IRA may be deductible as investment interest expense.

If IRA administrative or trustee fees are separately billed and paid, they are generally deductible under Code section 212.[1] Section 212 allows generally for the deduction of ordinary and reasonable expenses incurred

for the production of income. However, such expenses are aggregated with other miscellaneous itemized expenses and deductible only to the extent that miscellaneous itemized expenses exceed two percent of adjusted gross income.[2] IRA administrative or trustee fees that are separately billed and paid are not treated as additional contributions to the IRA.

On the other hand, additional amounts contributed to an IRA to reimburse the IRA for a broker's commissions on transactions involving IRA assets were not deductible. Furthermore, such amounts were treated as additional contributions to the IRA.[3] Sales commissions on individual retirement annuities were similarly treated even though the commissions were separately billed and paid.[4]

The Service has ruled that interest borrowed to buy or carry an IRA is deductible under Code section 163; such interest is not allocable to tax-exempt income and, thus, it is not subject to the prohibition against deducting interest allocable to tax-exempt income.[5] However, interest borrowed to buy or carry an IRA is allocable to property held for investment. Such interest is aggregated with other investment interest and is deductible only to the extent of investment income; any excess investment interest can be carried over to later years.[6]

TRUSTEE

An individual cannot be the trustee of an individual retirement account. The trustee must be a bank, a federally insured credit union, a building and loan association, or other person who satisfies requirements of the Internal Revenue Service.[7] A non-bank trustee must demonstrate the following characteristics to the IRS:

- fiduciary ability (including continuity of life, an established place of business in the United States where it is accessible during every business day, fiduciary experience, fiduciary responsibility, and financial responsibility),
- capacity to account for the interests of a large number of individuals,
- fitness to handle retirement funds,

- ability to administer fiduciary powers, and
- adequacy of net worth.[8]

In addition, the non-bank trustee must also provide the following:

- that audits will be conducted by a qualified public account at least once every 12 months,
- that funds will be kept invested as long as reasonable for the proper management of the account,
- that investments will not be commingled with other investments except in a common trust fund and investments will be safely maintained, and
- that separate fiduciary records will be maintained.[9]

ACCUMULATIONS/INVESTMENTS

Amounts earned within IRAs generally accumulate on a tax-deferred basis. Earnings are generally not taxable until distributed from the IRA (and possibly not even then). However, an IRA is taxed if it has unrelated business taxable income. Furthermore, part or all of the IRA may be deemed distributed if the IRA owner engages in a prohibited transaction, borrows on an annuity contract, pledges the account as security for a loan, purchases an endowment contract, or invests in certain collectibles.[10] An IRA account cannot invest in life insurance contracts.[11] The IRA can be in the form of an individual retirement annuity.[12]

An individual retirement annuity is an annuity contract or endowment contract issued by an insurance company meeting certain requirements: (1) the contract cannot be transferable by the owner; (2) the premiums may not be fixed; (3) the annual premium cannot exceed $2,000; (4) any refund of premiums must be applied before the end of the next year to pay future premiums or to purchase additional benefits; (5) the required minimum distribution and minimum incidental death benefit rules apply; and (6) the entire interest of the owner must be nonforfeitable. For this purpose, an endowment contract cannot mature later than the taxable year in which the IRA owner reaches age 70½ and must be for the

exclusive benefit of the IRA owner or beneficiary. Aggregate annual premiums for all endowment contracts purchased for the IRA owner cannot exceed $2,000.

An IRA would generally be taxable as a trust to the extent that the IRA had unrelated business taxable income. IRAs typically invest in stocks, bonds, money markets, and mutual funds and do not have unrelated business taxable income.[13]

If the individual on behalf of whom an IRA is created or the beneficiary of such individual (disqualified persons) engage in a prohibited transaction with the IRA, the IRA will cease to qualify as an IRA and the entire IRA is treated as distributed at fair market value on the first day of the year in which the IRA ceased to qualify as an IRA. In general, prohibited transactions include the following:

- the sale, exchange, or leasing of property between the IRA and the disqualified person;
- the lending of money or other extension of credit between a plan and a disqualified person;
- the furnishing of goods, services, or facilities between the IRA and the disqualified person; and
- the transfer to, or use by or for the benefit of, the disqualified person of income or assets of the IRA.[14]

Where the owner of an individual retirement annuity borrows on the annuity, the IRA ceases to qualify as an IRA, and the full fair market value of the annuity is includable in income on the first day of the year.[15] (It appears that a technical correction is needed to permit the exclusion of nondeductible contributions.)

If the individual on behalf of whom the IRA is created pledges the account (or a portion thereof) as security for a loan, the portion pledged is treated as distributed.[16]

If the assets of an IRA are used to purchase an endowment contract for the benefit of the individual on behalf of whom the IRA is created, to the extent that the assets are used to purchase life, health,

accident, or other insurance, such amounts are treated as distributed.[17] Apparently, such a deemed distribution would not be subject to the premature distribution penalty tax; however, a technical correction is needed.

In general, IRAs cannot invest in collectibles. The acquisition by an IRA of a collectible is treated as a distribution from the IRA of an amount equal to the cost of the collectible. Collectibles mean works of art, rugs, antiques, metals, gems, stamps, coins, alcoholic beverages, and any other tangible personal property specified by the IRS. Certain coins and bullion are not treated as collectibles: certain gold, silver, or platinum U.S. coins; coins of the various states; and certain gold, silver, platinum, or palladium bullion if the bullion is in the physical possession of the IRA trustee.[18]

PREMATURE DISTRIBUTIONS

In general, distributions from an IRA received before age 59½ are subject to a 10 percent penalty tax on premature distributions. However, the penalty tax only applies to the extent that the distribution is includable in income (see Chapter 13) and a number of exceptions to application of the penalty apply.[19] The premature distribution penalty also applies to distributions of conversion contributions from a Roth IRA made within five years of the conversion to a Roth IRA (see Chapter 5).

The premature distributions penalty tax does not apply to distributions from an IRA which are:

(1) made after the death of the IRA owner;

(2) attributable to the IRA owner's disability;

(3) part of a series of substantially equal periodic payments (at least annually) made for the life (or life expectancy) or the joint life (or life expectancies) of the IRA owner and a designated beneficiary (the penalty tax plus interest is due if the substantially equal periodic payments are modified before the later of five years after payments have begun or the IRA owner reaches age 59½);

(4) made for medical care to the extent generally allowable as a medical expense deduction (generally, unreimbursed medical expenses in excess of 7.5 percent of adjusted gross income; for this purpose, itemization of deductions is not required);

(5) made to the IRA owner who is unemployed for payment of health insurance premiums;

(6) made to the IRA owner for payment of qualified higher education expenses furnished to the IRA owner, the IRA owner's spouse, or children or grandchildren of either; or

(7) made to the IRA owner ($10,000 lifetime limit) for purchase of a first home by the IRA owner, the IRA owner's spouse, or children, grandchildren, or ancestor of either.

The IRS has approved three methods for calculating substantially equal periodic payments:

(1) payments which satisfy the required minimum distributions method (see heading below);

(2) amortization of payments over the life expectancy of the IRA owner (Annuity Table V) or joint and survivor life expectancy of the IRA owner and beneficiary (Annuity Table VI) using a reasonable interest rate; and

(3) annuitization of payments for the life of the IRA owner or the lives of the IRA owner and beneficiary using a reasonable mortality table and interest rate.[20]

The first method requires recalculation of payments each year, while the second and third methods provide constant payments.

For additional discussion of the premature distribution penalty, and in particular, the three methods for calculating substantially equal periodic payments with examples, see Chapter 13.

REQUIRED MINIMUM DISTRIBUTIONS

When an IRA (other than a Roth IRA or an Education IRA) owner reaches age 70½, the IRA owner must begin taking required minimum distributions. In general, the required minimum distribution rules cause the IRA owner to withdraw the entire IRA account balance over the IRA owner's life or the lives of the IRA owner and a designated beneficiary. If there is more than one beneficiary other than the IRA owner, the oldest other beneficiary's life expectancy is used for the designated beneficiary. Special rules apply where the spouse of the IRA owner is the designated beneficiary. Failure to withdraw the required minimum distribution results in a 50 percent penalty tax on the amount by which the amount of the required minimum distribution exceeds the actual amount withdrawn.[21]

In the case of a Roth IRA, required minimum distributions need not begin until after the death of the Roth IRA owner (which includes the spouse of the original Roth IRA owner where the surviving spouse is the designated beneficiary and elects to treat the Roth IRA as the spouse's own.)[22] (See Chapter 5.) An Education IRA is not subject to the required minimum distribution rules; however, an Education IRA must generally be distributed at the earlier of the beneficiary reaching age 30 or dying (see Chapter 6).

An additional rule, the minimum distribution incidental benefit rule, is designed to insure that traditional IRA distributions are primarily for the benefit of the IRA owner. The rule does this, while the IRA owner is alive, by treating a beneficiary other than the spouse of the IRA owner as no more than 10 years younger than the IRA owner.[23] The minimum distribution incidental benefit rule does not apply to Roth or Education IRAs.

In the case of a traditional, SEP, or SIMPLE IRA, required minimum distributions must begin by April 1 of the year following the year the IRA owner reaches age 70½. Generally, required minimum distributions must be made by December 31st of each year. However, in the year the IRA owner reaches age 70½, the required minimum distribution for that year need not be made until April 1st of the following year (the required beginning date).

Required minimum distributions may be calculated for each IRA and distributions made from each IRA as appropriate. Alternatively, required

minimum distributions may be calculated for all IRAs within a category (e.g., traditional, Roth) owned by the individual and distributions made from whichever IRA or IRAs within the category the IRA owner chooses. However, an inherited IRA may not be aggregated with any other IRA within a category unless the other IRA was inherited from the same person. For this purpose, an IRA that a surviving spouse elects to treat as such spouse's own is not treated as being inherited from the decedent spouse.

The required minimum distribution for each year is generally calculated by dividing the IRA account balance as of the end of the previous year by the life expectancy of the IRA owner or the joint and survivor life expectancy of the IRA owner and a designated beneficiary. Life expectancies for one life are based upon annuity Table V (see Appendix A); joint and survivor life expectancies are based upon annuity Table VI (see Appendix A).

Attained age is used for the age of the IRA owner and beneficiary in the appropriate year. Thus, a traditional, SEP, or SIMPLE IRA owner whose birthday is in the first half of the year (January-June) will be age 70 in the year the IRA owner turns 70½ and will enter the table using age 70. On the other hand, a traditional, SEP, or SIMPLE IRA owner whose birthday is in the second half of the year (July-December) will be age 71 in the year the IRA owner turns 70½ and will enter the table using age 71.

Required minimum distributions may be calculated using either a recalculation method or a "subtract one" method. The recalculation method is available only for calculations of the life expectancy of the IRA owner and the spouse of the IRA owner. It essentially involves recalculating the life expectancy of the IRA owner and/or spouse of the IRA owner each year by re-entering the life expectancy tables. For example, if the IRA owner has no designated beneficiary and the IRA owner attains age 70 in the year the owner reaches age 70½, life expectancy is 16 (see Table V) for that year, 15.3 in the following year, and so on. If the IRA owner has no designated beneficiary and the IRA owner attains age 71 in the year the owner reaches age 70½, life expectancy is 15.3 (see Table V) for that year, 14.6 in the following year, and so on.

Assuming the IRA document permits it, the "subtract one" method can be used by the IRA owner and the spouse of the IRA owner instead of

the recalculation method. The "subtract one" method is required for any beneficiary other than the IRA owner or the spouse of the IRA owner. The "subtract one" method will almost always be used with a Roth IRA because required minimum distributions can be postponed until after the death of the IRA owner and the spouse of the IRA owner.

The "subtract one" method involves determining the life expectancy of the IRA owner or life expectancy of the IRA owner and the designated beneficiary in the year the IRA owner turns 70½, and then subtracting one from the life expectancy in each year thereafter. For example, if the IRA owner has no designated beneficiary and the IRA owner attains age 70 in the year the owner reaches age 70½, life expectancy is 16 (see Table V) for that year, 15 (16 - 1) in the following year, and so on. If the IRA owner has no designated beneficiary and the IRA owner attains age 71 in the year the owner reaches age 70½, life expectancy is 15.3 (see Table V) for that year, 14.3 (15.3 - 1) in the following year, and so on.

The recalculation method generally permits a slower payout than the "subtract one" method because the life expectancies in the tables drop by less than one year for each year that an individual survives. However, if a person whose life expectancy is being recalculated dies, such person's life expectancy drops to zero. For example, if the IRA owner uses the recalculation method and has no designated beneficiary and the IRA owner attains age 70 in the year the owner reaches age 70½, life expectancy is 16 (see Table V) for that year. But if the IRA owner dies in the next year, life expectancy drops to zero and the entire IRA must generally be distributed immediately. If the IRA owner uses the "subtract one" method and has no designated beneficiary and the IRA owner attains age 70 in the year the owner reaches age 70½, life expectancy is 16 (see Table V) for that year, 15 (16 - 1) in the following year, and so on. Even if the IRA owner dies, payments are made over the 16 years of initial life expectancy.

While the owner of a traditional, SEP, or SIMPLE IRA is alive, a designated beneficiary other than the spouse of the IRA owner is treated as no more than 10 years younger than the IRA owner under the minimum distribution incidental benefit rule. If the amount determined under the minimum distribution incidental benefit rule is higher than the regular required minimum distribution, the higher amount is required to be distributed. In essence, the minimum distribution incidental ben-

efit rule attempts to insure that distributions are primarily for the benefit of the owner of the traditional, SEP, or SIMPLE IRA. The rule does so by preventing distributions from being excessively spread out over many years through the use of a beneficiary (except in the case of the spouse of the IRA owner) who is much younger than the IRA owner.

For example, if the owner of the traditional, SEP, or SIMPLE IRA is age 70 and the designated beneficiary (who is not the spouse of the IRA owner) is age 40, the joint and survivor life expectancy for a person age 70 and a person age 40 would ordinarily be 42.9 (see Table VI). However, the minimum distribution incidental benefit rule would treat the designated beneficiary as being age 60 (70 - 10), and the resulting joint and survivor life expectancy for a person age 70 and a person age 60 would be 26.2 (see Table VI).

If the traditional, SEP, or SIMPLE IRA owner dies after the required beginning date (generally, April 1st after reaching age 70½), required minimum distributions generally must continue at least as rapidly as under the method used (or required) while the IRA owner was alive. However, where the spouse of the IRA owner is the designated beneficiary, after the owner's death such spouse can generally elect to be treated as the owner of the IRA for purposes of the required minimum distribution rules.

If the traditional, SEP, or SIMPLE IRA owner dies before the required beginning date (generally, April 1st after reaching age 70½), the entire IRA account must be distributed within five years of the owner's death unless the IRA owner has designated a beneficiary. Where the IRA owner has designated a beneficiary, distributions may be made over the life expectancy (Table V) of the beneficiary as long as distributions begin within one year of the owner's death. In the case of a Roth IRA, the entire IRA account must be distributed within five years of the death of the IRA owner (or the death of the spouse of the IRA owner who elected to treat the IRA as the spouse's own) unless the IRA owner (including a spouse who has made the election to be treated as owner of the IRA) has designated a beneficiary.

However, where the spouse of the IRA owner is the designated beneficiary, after the owner's death such spouse can generally elect to be

treated as the owner of the IRA for purposes of the required minimum distribution rules. In the case of a Roth IRA, such an election would permit required minimum distributions to be postponed until after the death of the spouse. In the case of a traditional, SEP, or SIMPLE IRA, such an election would permit distributions to be postponed until the spouse reaches age 70½. Also, where the spouse of the IRA owner is the designated beneficiary, after the owner's death such spouse could postpone required minimum distributions until such time as the former IRA owner would have reached age 70½.

For additional discussion of the required minimum distribution rules, including descriptions of the various methods available and examples of the calculations, see Chapter 13.

DIVORCE

If an interest in an IRA is transferred from one spouse to the other in connection with a divorce or separation, a gift may be made. However, a transfer of property to a spouse in settlement for his or her marital or property rights or for child support shall be deemed made for full and adequate consideration in money or money's worth if:

(1) the transfer is made pursuant to a written agreement between the husband and wife, and

(2) divorce occurs within the three-year period beginning on the date one year before the agreement is entered into.

Under this statutory provision, it is immaterial whether the agreement is approved by the divorce decree.[24]

Also, the transfer of an IRA from one spouse to the other in connection with a divorce or separation is generally not considered a taxable transfer for income tax purposes. The spouse to whom the IRA is transferred is thereafter treated as the IRA owner.[25]

FILING REQUIREMENTS FOR IRA PARTICIPANT

Generally, an individual who establishes an individual retirement plan does not need to file a return for the plan for any year in which there

is no plan activity other than making contributions (other than rollover contributions) and making distributions. However, the individual does need to file a return if there is a tax due because of an excess contribution or an excess accumulation (i.e., failure to make a required minimum distribution).[26] Information on these additional taxes is reported on IRS Form 5329 (see Appendix D). The tax on premature distributions is also reported on IRS Form 5329.

Also, if an individual makes a designated nondeductible contribution to a traditional or SEP IRA for any taxable year or takes a contribution from an IRA for any taxable year, the individual must include on his income tax return (or other form as the Secretary of the Treasury prescribes) the following information:

(1) the amount of designated nondeductible contributions for the taxable year;

(2) the amount of distributions from individual retirement plans for the taxable year;

(3) the excess of the aggregate amount of designated nondeductible contributions for all preceding taxable years over the aggregate amount of distributions from individual retirement plans which was excludable from taxable income for such taxable years;

(4) the aggregate balance of all individual retirement plans as of the close of the year in which the taxable year begins; and

(5) any other information as the Secretary of the Treasury may prescribe.[27]

Overstatement of a designated nondeductible contribution for any year is subject to a penalty tax of $100 per overstatement. An individual who fails to file a form required by the Secretary of Treasury under Section 408(o) incurs a penalty of $50 for each such failure unless it is shown that such failure is due to reasonable cause.[28]

IRS Form 8606 (see Appendix D) is the appropriate form for reporting designated nondeductible contributions and distributions.

CHAPTER ENDNOTES

1. Rev. Rul. 84-146, 1984-2 CB 61.
2. IRC Sec. 67.
3. Rev. Rul. 86-142, 1986-2 CB 60.
4. Let. Rul. 8747072.
5. Let. Rul. 8527082.
6. IRC Sec. 163(d).
7. IRC Secs. 408(a)(2), 408(n).
8. Regs. §§1.408-2(b)(2), 1.408-2(e).
9. Ibid.
10. IRC Secs. 408(e), 408(m).
11. IRC Sec. 408(a)(3).
12. IRC Sec. 408(b).
13. IRC Secs. 408(e), 511.
14. IRC Secs. 408(e)(2), 4975.
15. IRC Sec. 408(e)(3).
16. IRC Sec. 408(e)(4).
17. IRC Sec. 408(e)(5).
18. IRC Sec. 408(m).
19. IRC Sec. 72(t).
20. Notice 89-25(A-12), 1989-1 CB 662.
21. IRC Secs. 408(a)(6), 408(b)(3), 401(a)(9), 4974(a).
22. IRC Sec. 408A(c)(5).
23. Prop. Reg. §1.401(a)(9)-2(A-4).
24. IRC Sec. 2516.
25. IRC Secs. 408(d)(6), 530(d)(7).
26. IRC Secs. 6058(d), 6058(e).
27. IRC Sec. 408(o).
28. IRC Sec. 6693(b).

Part II:
IRA TYPES

Chapter 4

TRADITIONAL IRAS

Traditional IRAs have been particularly popular because deductible (as well as nondeductible) contributions (a combined maximum of $2,000 per year) can be made to such IRAs. The ability to make deductible (but not nondeductible) contributions to a traditional IRA is restricted if the individual is an active participant in certain employer retirement plans and the individual has certain thresholds (depending on taxpayer filing status) of income. Contributions to a traditional IRA must essentially be made from compensation received by the individual and cannot be made once the individual has attained age 70½.

Amounts contributed to a traditional IRA can be invested in a wide variety of investments. Such amounts grow within the IRA account on a tax-deferred basis; there is generally no taxation until amounts are distributed.

Amounts distributed from a traditional IRA are generally taxable on a pro-rated basis. Amounts distributed from a traditional IRA that are allocated to nondeductible contributions are excludable from income.

Distributions received before the individual reaches age 59½ are generally subject to a premature distribution penalty tax to the extent the distribution is includable in income unless an exception applies. Once the individual reaches age 70½, required minimum distributions must be made from the traditional IRA or a different penalty tax applies.

Traditional IRAs are useful for receiving rollovers from a qualified retirement plan or a tax sheltered annuity. Such rollovered amounts can generally be retained in a traditional IRA, rolled back to a qualified retirement plan or a tax sheltered annuity, or converted to a Roth IRA (generally a taxable event).

The development of Roth IRAs (see Chapter 5) may substantially cut into the popularity of traditional IRAs. No deduction is available for Roth

IRAs; however, distributions from a Roth IRA can often be received tax-free. Therefore, it is generally preferable to make nondeductible contributions to a Roth IRA rather than nondeductible contributions to a traditional IRA unless contributions cannot be made to a Roth IRA because of the income thresholds for Roth IRAs. Furthermore, under some circumstances, it may be preferable to make nondeductible contributions to a Roth IRA rather than it is to make deductible contributions to a traditional IRA (see Chapter 9). Also, contributions can be made to a Roth IRA even after the individual has attained age 70½. And, finally, required minimum distributions from a Roth IRA can generally be postponed until after the death of the individual and the individual's spouse.

CONTRIBUTIONS

An individual may generally make deductible and nondeductible contributions to a traditional IRA. An individual may also make certain contributions to a traditional IRA for the individual's spouse. In addition, an employer may make contributions to an employee's traditional IRA. Contributions may be subject to various limitations. A rollover (see heading below) to a traditional IRA is generally not treated as a contribution to a traditional IRA.

Contributions to a traditional IRA, as for all IRAs, must be made in cash.[1] Contributions for a taxable year may be made up until the time for filing the tax return for the year (not including extensions of time for filing): generally, April 15.[2]

An individual may take a deduction from income in any taxable year for contributions the individual makes to a traditional IRA for up to the lesser of $2,000 or compensation includable in income.[3] However, a deduction cannot be taken for contributions made to a traditional IRA in taxable years once the individual has attained age 70½.[4] Furthermore, a deduction generally cannot be taken for contributions to an IRA inherited from another individual.[5]

Special rules apply to married individuals, or more specifically to an individual who files a joint return for the year where the individual's compensation includable in income for the year is less than the compensation includable in income for the year by the individual's

spouse. In such case, a deduction from income may be taken for contributions the individual makes to a traditional IRA for up to the lesser of (1) $2,000 or (2) the sum of (a) compensation includable in such individual's income and (b) compensation includable in the income of such individual's spouse. For this purpose, the compensation included in the income of such individual's spouse is reduced by (1) any deduction taken for contributions such spouse made to a traditional IRA and (2) any contribution to a Roth IRA for such spouse.[6]

This special rule is often referred to as allowing contributions to be made for a non-working spouse. However, the special rule may be of some use whenever one spouse has compensation of less than $2,000. It can allow deductible contributions to be made for an individual with little or no compensation by taking into account compensation of such individual's spouse.

Example. Bob and Sue file a joint return for 2000. Bob has compensation of $50,000 and Sue has no compensation. Bob has contributed $2,000 to a Roth IRA. A deduction can be taken for a $2,000 contribution to a traditional IRA for Sue. The deduction is equal to the lesser of (1) $2,000, or (2) the sum of (a) Sue's compensation ($0) and (b) Bob's compensation ($50,000) reduced by the $2,000 contribution to Bob's Roth IRA.

If the individual is an active participant in certain employer retirement plans, the $2,000 amount is subject to phaseout based upon adjusted gross income.[7]

An individual is considered an active participant in an employer retirement plan if the individual is an active participant in a qualified corporate or Keogh pension, profit sharing, stock bonus, or annuity plan, in a simplified employee pension (SEP IRA), in a 403(b) tax sheltered annuity, SIMPLE IRA, or in a government plan. However, participation in Social Security, Railroad Retirement (tier I or II) or in a Section 457 deferred compensation plan is not taken into consideration. Active participants include any individual who is an active participant in a plan established for employees by the United States, a State or political subdivision thereof, or by an agency or instrumen-

tality of any of the foregoing. Active participation is determined without regard to whether an individual's rights in the plan are nonforfeitable. However, certain members of the armed forces reserves and certain volunteer firemen covered under government plans are not considered active participants.

In the case of an active participant, the $2,000 amount is reduced by an amount equal to $2,000 multiplied by the ratio of the individual's adjusted gross income (AGI) in excess of an applicable dollar amount to $10,000 ($20,000 in the case of a joint return after 2006).

$$\$2{,}000 \times \frac{\text{AGI - applicable dollar amount}}{\$10{,}000} = \text{reduction}$$

Whenever the phaseout reduction is other than a multiple of $10, the reduction is rounded to the next lowest multiple of $10. However, where the $2,000 amount adjusted for phaseout based upon adjusted gross income is between $0 and $200, $200 is the amount allowable as a deduction. See Figure 4.1.

In the case of a joint return, the applicable dollar amount equals:

Taxable Year	Applicable Dollar Amount	Total Phaseout
1999	$51,000	$61,000
2000	$52,000	$62,000
2001	$53,000	$63,000
2002	$54,000	$64,000
2003	$60,000	$70,000
2004	$65,000	$75,000
2005	$70,000	$80,000
2006	$75,000	$85,000
2007-	$80,000	$100,000

Thus, in the case of a joint return of an active participant, the $2,000 amount is not reduced for adjusted gross income of up to $52,000 (in 2000, $53,000 in 2001), is reduced to $0 for adjusted gross income of $62,000 (in 2000, $63,000 in 2001) or more, and is proportionately reduced in the case of adjusted gross income between $52,000 (in 2000, $53,000 in 2001) and $62,000 (in 2000, $63,000 in 2001).

Figure 4.1

PHASEOUT OF DEDUCTION FOR CONTRIBUTIONS TO TRADITIONAL IRA*

AGI in Excess of Applicable Dollar Amount	Maximum Deduction	AGI in Excess of Applicable Dollar Amount	Maximum Deduction
$0	$2,000	$5,100	$980
$100	$1,980	$5,200	$960
$200	$1,960	$5,300	$940
$300	$1,940	$5,400	$920
$400	$1,920	$5,500	$900
$500	$1,900	$5,600	$880
$600	$1,880	$5,700	$860
$700	$1,860	$5,800	$840
$800	$1,840	$5,900	$820
$900	$1,820	$6,000	$800
$1,000	$1,800	$6,100	$780
$1,100	$1,780	$6,200	$760
$1,200	$1,760	$6,300	$740
$1,300	$1,740	$6,400	$720
$1,400	$1,720	$6,500	$700
$1,500	$1,700	$6,600	$680
$1,600	$1,680	$6,700	$660
$1,700	$1,660	$6,800	$640
$1,800	$1,640	$6,900	$620
$1,900	$1,620	$7,000	$600
$2,000	$1,600	$7,100	$580
$2,100	$1,580	$7,200	$560
$2,200	$1,560	$7,300	$540
$2,300	$1,540	$7,400	$520
$2,400	$1,520	$7,500	$500
$2,500	$1,500	$7,600	$480
$2,600	$1,480	$7,700	$460
$2,700	$1,460	$7,800	$440
$2,800	$1,440	$7,900	$420
$2,900	$1,420	$8,000	$400
$3,000	$1,400	$8,100	$380
$3,100	$1,380	$8,200	$360
$3,200	$1,360	$8,300	$340
$3,300	$1,340	$8,400	$320
$3,400	$1,320	$8,500	$300
$3,500	$1,300	$8,600	$280
$3,600	$1,280	$8,700	$260
$3,700	$1,260	$8,800	$240
$3,800	$1,240	$8,900	$220
$3,900	$1,220	$9,000	$200
$4,000	$1,200	$9,100	$200
$4,100	$1,180	$9,200	$200
$4,200	$1,160	$9,300	$200
$4,300	$1,140	$9,400	$200
$4,400	$1,120	$9,500	$200
$4,500	$1,100	$9,600	$200
$4,600	$1,080	$9,700	$200
$4,700	$1,060	$9,800	$200
$4,800	$1,040	$9,900	$200
$4,900	$1,020	$10,000	$0
$5,000	$1,000		

* Table cannot be used for a joint return after 2006 because the phaseout spread increases to $20,000.

However, in the case of a joint return where one spouse is an active participant and the other is not, the applicable dollar amount with respect to the spouse who is not an active participant is increased to $150,000; however, the $10,000 phaseout band remains at $10,000 (it does not increase to $20,000 as in the case of a joint return after 2006).[8] Thus, in such case, the $2,000 amount is not reduced for adjusted gross income of up to $150,000, is reduced to $0 for adjusted gross income of $160,000 or more, and is proportionately reduced in the case of adjusted gross income between $150,000 and $160,000.

In the case of other than a joint return or a married filing separate return, the applicable dollar amount equals:

Taxable Year	Applicable Dollar Amount	Total Phaseout
1999	$31,000	$41,000
2000	$32,000	$42,000
2001	$33,000	$43,000
2002	$34,000	$44,000
2003	$40,000	$50,000
2004	$45,000	$55,000
2005-	$50,000	$60,000

Thus, in the case of a single return or a head of household return of an active participant, the $2,000 amount is not reduced for adjusted gross income of up to $32,000 (in 2000, $33,000 in 2001), is reduced to $0 for adjusted gross income of $42,000 (in 2000, $43,000 in 2001) or more, and is proportionately reduced in the case of adjusted gross income between $32,000 (in 2000, $33,000 in 2001) and $42,000 (in 2000, $43,000 in 2001).

In the case of a married filing separate return of an active participant, the applicable dollar amount equals $0. Thus, in such case, the $2,000 amount is reduced to $0 for adjusted gross income of $10,000 or more, and is proportionately reduced in the case of adjusted gross income between $0 and $10,000.

Example. In 2000, a married individual who files a joint return is an active participant in a retirement plan and has adjusted gross income of $55,333. He can make a deductible contribution to a traditional IRA of $1,340. This is calculated as follows:

$$\$2{,}000 \times \frac{\text{AGI - applicable dollar amount}}{\$10{,}000} = \text{reduction}$$

round reduction down to next lowest multiple of $10

$2,000 - reduction = amount deductible

$$\$2{,}000 \times \frac{\$55{,}333 - \$52{,}000}{\$10{,}000} = \$667$$

round $667 to $660

$2,000 - $660 = $1,340

The deduction for a contribution to a traditional IRA is a deduction from gross income.[9] Therefore, the deduction can be taken whether or not the individual itemizes deductions and is not subject to any phaseout of itemized deductions.

A taxpayer can elect to have otherwise deductible contributions to a traditional IRA treated as nondeductible.[10] However, as noted below, it is usually better to make nondeductible contributions to a Roth IRA rather than to a traditional IRA. (For a discussion of whether it is better to make *deductible* contributions to a traditional IRA or nondeductible contributions to a Roth IRA, see Chapter 9.)

An individual can also make nondeductible contributions to a traditional IRA up to the lesser of $2,000 or compensation includable in income. This amount is reduced by any deductible contributions made to a traditional IRA.[11] However, nondeductible contributions to a traditional IRA are not subject to any phaseout based upon adjusted gross income even if the individual is an active participant in certain employer retirement plans.

Nondeductible contributions can also be made to a Roth IRA (see Chapter 5). However, contributions that can be made to a Roth IRA are subject to phaseout based upon income and are reduced by contributions made to a traditional IRA. Because distributions from a Roth IRA are generally subject to much more favorable rules than are distributions from a traditional IRA, it is generally advisable to make nondeductible contributions to a Roth IRA rather than nondeductible contributions to a traditional IRA, except to the extent that the individual's permissible

contributions to a Roth IRA are phased out by the limitations based on income.

Contributions to traditional IRAs and Roth IRAs are subject to a combined overall limitation of $2,000.[12]

In the case of an excess contribution to a traditional IRA, there is imposed a six percent penalty tax.[13] In general, an excess contribution is any portion of a contribution to a traditional IRA in excess of the limitations described above. However, it is necessary to keep a running account of excess contributions; i.e., it is necessary to keep track of contributions and distributions for the current year and preceding years in order to determine if there is an excess contribution for the current year.

More technically, an excess contribution for any taxable year equals the sum of (1) the excess of contributions to traditional IRAs over the lesser of $2,000 or the individual's compensation, and (2) amounts determined under this calculation for the preceding taxable year reduced by the sum of (a) distributions from traditional IRAs of amounts includable in income for the year, (b) distributions from traditional IRAs of amounts not includable in income under Code section 408(d)(5) (i.e., distributions of amounts contributed that did not exceed $2,000 but did exceed the amount of compensation), and (c) the excess of the amount allowable as a deduction for contributions to a traditional IRA for the year over the amount contributed to traditional and Roth IRAs for the year. Thus, an excess contribution carried over from a previous year can be used up as a contribution in a subsequent year.[14]

Example. Ann contributed $2,500 to a traditional IRA in 1998, resulting in an excess contribution of $500 ($2,500 - $2,000). Ann contributed $2,100 to the IRA in 1999, resulting in an excess contribution of $600 ([$2,100 - $2,000] plus the $500 carryover from 1998). In 2000, Ann does not contribute to the IRA. The $600 carryover from 1999 is treated as contributed (and deductible) in 2000 and is less than $2,000; there is no excess contribution.

An employer may make contributions to an employee's traditional IRA. The employer takes a deduction for the contribution as compensa-

tion paid to the employee. The employer withholds any FICA (social security tax), FUTA (federal unemployment tax), and income tax as appropriate. The employee includes the contribution in income as compensation. The employee can then take a deduction for a contribution to a traditional IRA, subject to the limitations based upon active participation and income thresholds described above. The same overall contribution level (generally, $2,000) described above also applies to contributions made by the employer.

See the discussion of Simplified Employee Pensions (SEPs) in Chapter 7 and SIMPLE IRAs (Savings Incentive Match Plan for Employees IRA) in Chapter 8, for IRAs specifically designed for employer/employee programs.

ACCUMULATIONS/INVESTMENTS

Amounts earned within a traditional IRA generally accumulate on a tax-deferred basis. Earnings are generally not taxable until distributed from the traditional IRA. However, a traditional IRA is taxed if it has unrelated business taxable income. Furthermore, part or all of the traditional IRA may be deemed distributed if the IRA owner engages in a prohibited transaction, borrows on an annuity contract, pledges the account as security for a loan, purchases an endowment contract, or invests in certain collectibles.[15] A traditional IRA account, as with all IRAs, cannot invest in life insurance contracts.[16] The IRA can be in the form of an individual retirement annuity.[17]

An individual retirement annuity is an annuity contract or endowment contract issued by an insurance company meeting certain requirements: (1) the contract cannot be transferable by the owner; (2) the premiums may not be fixed; (3) the annual premium cannot exceed $2,000; (4) any refund of premiums must be applied before the end of the next year to pay future premiums or to purchase additional benefits; (5) the required minimum distribution and minimum distribution incidental death benefit rules apply; and (6) the entire interest of the owner must be nonforfeitable. For this purpose, an endowment contract cannot mature later than the taxable year in which the IRA owner reaches age 70½ and must be for the exclusive benefit of the IRA owner or beneficiary. Aggregate annual premiums for all endowment contracts purchased for the IRA owner cannot exceed $2,000.

See Chapter 3 for more information on limitations on accumulations in an IRA.

DISTRIBUTIONS

Amounts distributed from a traditional IRA are includable in taxable income (on a prorated basis) to the extent distributions are from deductible contributions to the traditional IRA and earnings from the traditional IRA. Amounts distributed before the traditional IRA owner reaches age 59½ which are includable in income are subject to a premature distribution penalty tax unless certain exceptions are met. Required minimum distributions must begin when the IRA owner reaches age 70½ or a penalty tax applies. A rollover (see heading below) from a traditional IRA is generally not treated as a distribution from a traditional IRA.

Part or all of the traditional IRA may be deemed distributed if the IRA owner engages in a prohibited transaction, borrows on an annuity contract, pledges the account as security for a loan, purchases an endowment contract, or invests in certain collectibles.[18]

Amounts distributed from a traditional IRA represent one of three categories: deductible contributions to the IRA, nondeductible contributions to the IRA, and earnings on contributions within the IRA. A deduction is taken when deductible contributions are made to the traditional IRA; therefore, deductible contributions represent property that has not been subjected to income tax. Earnings on contributions within the IRA generally accumulate tax-free (see above); therefore earnings on contributions also represent property that has not been subjected to income tax. However, nondeductible contributions to the IRA are contributed on an after-tax basis.

As a result, nondeductible contributions to a traditional IRA can be recovered tax-free from the IRA (similar to investment in the contract or basis). However, deductible contributions to a traditional IRA and earnings on contributions within a traditional IRA are includable in income upon distribution from a traditional IRA.

In order to calculate the part of a distribution from a traditional IRA that should be excluded from income, the annuity exclusion ratio rules are applied. Thus, gross income does not include the part of a distribution

which bears the same ratio to such amount as the investment in the contract (i.e., nondeductible contributions) bears to expected return under the contract. For this purpose, all traditional IRAs are treated as one IRA, all distributions during the year are treated as one distribution, and the value of the contract, income on the contract, and investment in the contract is computed at the end of the calendar year in which the taxable year begins. The value of the contract is increased by any distribution during the calendar year.[19]

The value of the contract is also increased by any outstanding rollovers. An outstanding rollover is a distribution from the IRA during the current year that is rolled over within 60 days of the distribution but during the following year.

Thus, the formula for calculating the portion of a distribution from a traditional IRA that is excludable from income as attributable to nondeductible contributions to the IRA is:

$$\frac{\text{Unrecovered Nondeductible Contributions}}{\text{Total Account Balance} + \text{Distribution Amount} + \text{Outstanding Rollover}} \times \text{Distribution Amount}$$

All traditional IRAs are treated as one in determining each of the above amounts. Unrecovered nondeductible contributions is determined as of the beginning of the year (i.e., before changes to the IRA account for the current year). The total account balance is determined as of the end of the year (i.e., increased by contributions and rollovers to the IRA, but reduced by distributions and rollovers from the IRA). The distribution amount and outstanding rollover is the total of such transactions occurring during the current year.[20]

Example. John made $2,000 nondeductible contributions to a traditional IRA for 10 years. Unrecovered nondeductible contributions as of the beginning of 2000 equals $20,000. John withdraws $1,000 from the IRA in 2000. At the end of 2000, the IRA account balance equals $24,000. The amount of the distribution excludable from income equals $800; $200 is includable. Unrecovered nondeductible contributions as of the beginning of 2001 would equal $19,200 ($20,000 - $800).

$$\frac{\text{Unrecovered Nondeductible Contributions}}{\text{Total Account Balance + Distribution Amount + Outstanding Rollover}} \times \text{Distribution Amount} = \text{Amount Excludable}$$

Distribution Amount - Amount Excludable = Amount Includable

$$\frac{\$20,000}{\$24,000 + \$1,000 + \$0} \times \$1,000 = \text{Amount Excludable}$$

$800 = Amount Excludable

$1,000 - $800 = Amount Includable

$200 = Amount Includable

Premature Distributions

In general, distributions from a traditional IRA received before age 59½ are subject to a 10 percent penalty tax on premature distributions. However, the penalty tax only applies to the extent that the distribution is includable in income and a number of exceptions to application of the penalty apply.[21]

The premature distributions penalty tax does not apply to distributions from a traditional IRA which are:

(1) made after the death of the IRA owner;

(2) attributable to the IRA owner's disability;

(3) part of a series of substantially equal periodic payments (at least annually) made for the life (or life expectancy) or the joint life (or life expectancies) of the IRA owner and a designated beneficiary (the penalty tax plus interest is due if the substantially equal periodic payments are modified before the later of five years after payments have begun or the IRA owner reaches age 59½);

(4) made for medical care to the extent generally allowable as a medical expense deduction (generally, unreimbursed medical

expenses in excess of 7.5 percent of adjusted gross income; for this purpose, itemization of deductions is not required);

(5) made to the IRA owner who is unemployed for payment of health insurance premiums;

(6) made to the IRA owner for payment of qualified higher education expenses furnished to the IRA owner, the IRA owner's spouse, or children or grandchildren of either; or

(7) made to the IRA owner ($10,000 lifetime limit) for purchase of a first home by the IRA owner, the IRA owner's spouse, or children, grandchildren, or ancestor of either.

The IRS has approved three methods for calculating substantially equal periodic payments:

(1) payments that satisfy the required minimum distributions method (see heading below);

(2) amortization of payments over the life expectancy of the IRA owner (Annuity Table V) or joint and survivor life expectancy of the IRA owner and beneficiary (Annuity Table VI) using a reasonable interest rate; and

(3) annuitization of payments for the life of the IRA owner or the lives of the IRA owner and beneficiary using a reasonable mortality table and interest rate.[22]

The first method requires recalculation of payments each year, while the second and third methods provide constant payments.

For additional discussion of the premature distribution penalty, and in particular, the three methods for calculating substantially equal periodic payments, see Chapter 13.

Required Minimum Distributions

When a traditional IRA owner reaches age 70½, the IRA owner must begin taking required minimum distributions. In general, the required

minimum distributions rules cause the IRA owner to withdraw the entire IRA account balance over the IRA owner's life or the lives of the IRA owner and a designated beneficiary. If there is more than one beneficiary other than the IRA owner, the oldest other beneficiary's life expectancy is used for the designated beneficiary. Special rules apply where the spouse of the IRA owner is the designated beneficiary. Failure to withdraw the required minimum distribution results in a 50 percent penalty tax on the amount by which the required minimum distribution exceeds the actual amount withdrawn.[23]

An additional rule, the minimum distribution incidental benefit rule, is designed to insure that the traditional IRA distributions are primarily for the benefit of the IRA owner. The rule does this, while the IRA owner is alive, by treating a beneficiary other than the spouse of the IRA owner as no more than 10 years younger than the IRA owner.[24]

In the case of a traditional IRA, required minimum distributions must begin by April 1 of the year following the year the IRA owner reaches age 70½. Generally, required minimum distributions must be made by December 31st of each year. However, in the year the IRA owner reaches age 70½, the required minimum distribution for that year need not be made until April 1st of the following year (the required beginning date).

Required minimum distributions may be calculated for each traditional IRA and distributions made from each IRA as appropriate. Alternatively, required minimum distributions may be calculated for all traditional IRAs owned by the individual and distributions made from whichever traditional IRA or IRAs the IRA owner chooses.

The required minimum distribution for each year is generally calculated by dividing the traditional IRA account balance as of the end of the previous year by the life expectancy of the IRA owner or the joint and survivor life expectancy of the IRA owner and a designated beneficiary. Life expectancies for one life are based upon annuity Table V (see Appendix A); joint and survivor life expectancies are based upon annuity Table VI (see Appendix A).

Attained age is used for the age of the IRA owner and beneficiary in the appropriate year. Thus, an IRA owner whose birthday is in the first half of the year (January-June) will be age 70 in the year the IRA owner turns

70½ and will enter the table using age 70. On the other hand, an IRA owner whose birthday is in the second half of the year (July-December) will be age 71 in the year the IRA owner turns 70½ and will enter the table using age 71.

Required minimum distributions may be calculated using either a recalculation method or a "subtract one" method. The recalculation method is available only for calculations of the life expectancy of the IRA owner and the spouse of the IRA owner. It essentially involves recalculating the life expectancy of the IRA owner and/or spouse of the IRA owner each year by re-entering the life expectancy tables. For example, if the IRA owner has no designated beneficiary and the IRA owner attains age 70 in the year the owner reaches age 70½, life expectancy is 16 (see Table V) for that year, 15.3 in the following year, and so on. If the IRA owner has no designated beneficiary and the IRA owner attains age 71 in the year the owner reaches age 70½, life expectancy is 15.3 (see Table V) for that year, 14.6 in the following year, and so on.

Assuming the IRA document permits it, the "subtract one" method can be used by the IRA owner and the spouse of the IRA owner instead of the recalculation method. The "subtract one" method is required for any beneficiary other than the IRA owner or the spouse of the IRA owner.

The "subtract one" method involves determining the life expectancy of the IRA owner or life expectancy of the IRA owner and the designated beneficiary in the year the IRA owner turns 70½, and then subtracting one from the life expectancy in each year thereafter. For example, if the IRA owner has no designated beneficiary and the IRA owner attains age 70 in the year the owner reaches age 70½, life expectancy is 16 (see Table V) for that year, 15 (16 - 1) in the following year, and so on. If the IRA owner has no designated beneficiary and the IRA owner attains age 71 in the year the owner reaches age 70½, life expectancy is 15.3 (see Table V) for that year, 14.3 (15.3 - 1) in the following year, and so on.

The recalculation method generally permits a slower payout than the "subtract one" method because the life expectancies in the tables drop by less than one year for each year that an individual survives. However, if a person whose life expectancy is being recalculated dies, such person's life expectancy drops to zero. For example, if the IRA owner uses the recalculation method and has no designated beneficiary and the IRA

owner attains age 70 in the year the owner reaches age 70½, life expectancy is 16 (see Table V) for that year. But if the IRA owner dies in the next year, life expectancy drops to zero and the entire IRA must generally be distributed immediately. If the IRA owner uses the "subtract one" method and has no designated beneficiary and the IRA owner attains age 70 in the year the owner reaches age 70½, life expectancy is 16 (see Table V) for that year, 15 (16 - 1) in the following year, and so on. Even if the IRA owner dies, payments are made over the 16 years of initial life expectancy.

While the owner of the traditional IRA is alive, a designated beneficiary other than the spouse of the IRA owner is treated as no more than 10 years younger than the IRA owner under the minimum distribution incidental benefit rule. If the amount determined under the minimum distribution incidental benefit rule is higher than the regular required minimum distribution, the higher amount is required to be distributed. In essence, the minimum distribution incidental benefit rule attempts to insure that distributions are primarily for the benefit of the owner of the traditional IRA. The rule does so by preventing distributions from being excessively spread out over many years through the use of a beneficiary (except in the case of the spouse of the IRA owner) who is much younger than the IRA owner.

For example, if the owner of the traditional IRA is age 70 and the designated beneficiary (who is not the spouse of the IRA owner) is age 40, the joint and survivor life expectancy for a person age 70 and a person age 40 would ordinarily be 42.9 (see Table VI). However, the minimum distribution incidental benefit rule would treat the designated beneficiary as being age 60 (70 - 10), and the resulting joint and survivor life expectancy for a person age 70 and a person age 60 would be 26.2 (see Table VI).

If the traditional IRA owner dies after the required beginning date (generally, April 1st after reaching age 70½), required minimum distributions generally must continue at least as rapidly as under the method used (or required) while the IRA owner was alive. However, where the spouse of the IRA owner is the designated beneficiary, after the owner's death such spouse can generally elect to be treated as the owner of the traditional IRA for purposes of the required minimum distribution rules.

If the traditional IRA owner dies before the required beginning date (generally, April 1st after reaching age 70½), the entire IRA account must be distributed within five years unless the IRA owner has designated a beneficiary. Where the IRA owner has designated a beneficiary, distributions may be made over the life expectancy (Table V) of the beneficiary, as long as distributions begin within one year of the owner's death.

However, where the spouse of the traditional IRA owner is the designated beneficiary, after the owner's death such spouse can generally elect to be treated as the owner of the traditional IRA for purposes of the required minimum distribution rules. Also, such spouse could postpone required minimum distributions until such time as the former IRA owner would have reached age 70½.

For additional discussion of the required minimum distribution penalty, including the various methods for making distributions and examples thereof, see Chapter 13.

ROLLOVERS

Rollovers are permitted between various retirement plans, IRAs, and tax sheltered annuities. In general, a rollover is a transfer of retirement assets from one plan to another by the participant or owner which is completed within 60 days. The effect of a rollover is generally to avoid taxes and penalties upon what otherwise would be treated as a distribution.[25]

Rollovers are generally permitted from qualified retirement plans and tax sheltered annuities to a traditional IRA. Amounts rolled over from a qualified retirement plan or tax sheltered annuity are subject to 20 percent withholding unless the rollover is made through a direct trustee-to-trustee transfer.

Amounts rolled over from a qualified retirement plan to a traditional IRA can generally be rolled back to a qualified retirement plan if the rolled over amount was maintained in a traditional IRA to which no other amounts have been contributed or rolled over. Similarly, amounts rolled over from a tax sheltered annuity to a traditional IRA can generally be rolled back to a tax sheltered annuity if the rolled over amount was

maintained in a traditional IRA to which no other amounts have been contributed or rolled over.

Only one rollover is permitted from a particular IRA to any other IRA during the one-year period ending with the transfer from the first IRA. Also, in an IRA-to-IRA rollover, the receiving IRA cannot be an endowment contract.

Rollovers are permitted between traditional IRAs.

A rollover from a Roth IRA can be made only to another Roth IRA. Therefore, rollovers are not permitted from a Roth IRA to a traditional IRA (however, under certain circumstances, a Roth IRA can be recharacterized back as a traditional IRA — see Chapter 5). If a traditional IRA is rolled over to a Roth IRA, it is a taxable event and special provisions apply. See Chapter 5 on Roth IRAs.

Rollovers to or from an Education IRA are permitted only from or to another Education IRA. Therefore, rollovers cannot be made from an Education IRA to a traditional IRA or from a traditional IRA to an Education IRA.

Rollovers are permitted between a traditional IRA and a SEP IRA.

A rollover is not permitted from a SIMPLE IRA to any other IRA including a traditional IRA during the first two years that the individual participates in the SIMPLE IRA. The only rollover permitted to a SIMPLE IRA is from another SIMPLE IRA. Therefore, rollovers are not permitted from a traditional IRA to a SIMPLE IRA.

See Chapter 11 for a more detailed discussion of rollovers.

LOSSES (UNRECOVERED BASIS)

The Code provides that if annuity payments from a traditional IRA end upon the death of the annuitant and there is still unrecovered investment in the contract (essentially unrecovered basis), the unrecovered investment in the contract is allowable as a deduction for the annuitant's final tax year. However, if refund payments are made to a beneficiary or the annuitant's estate after the annuitant's death, the

deduction for unrecovered investment in the contract is taken by the person receiving the refund payments for the year in which received. The IRS provides additionally that when all amounts from all traditional IRAs have been distributed and the amounts distributed are less than the unrecovered basis, a loss may be recognized.[26]

Example. Jan contributes $2,000 (all nondeductible) to a traditional IRA in each of four years (a total of $8,000). The IRA earns $1,000 during the four years. Thus, the IRA account balance equals $9,000 ($8,000 + $1,000). Jan then withdraws $4,000. The amount excludable from income as investment in the contract equals $3,555 [($8,000 ÷ $9,000) x $4,000]. The unrecovered investment in the contract equals $4,445 ($8,000 - $3,555). The IRA account balance equals $5,000 ($9,000 - $4,000).

The next year, the IRA account balance drops in value to $3,000 (i.e., a loss in value of $2,000). Jan withdraws the entire $3,000. No amount is includable in income. Furthermore, Jan may claim a loss of $1,445 ($4,445 - $3,000).

WITHHOLDING

Distributions from a traditional IRA are distributions from a retirement plan subject to income tax withholding unless the individual elects to have withholding not apply. Thus, unless the election is made, periodic payments from a traditional IRA are subject to withholding at regular withholding rates and nonperiodic payments from a traditional IRA are subject to withholding at a 10 percent rate.[27]

A conversion of a traditional IRA into a Roth IRA (a qualified rollover) is a distribution subject to the income tax withholding rules above. However, withholding was not required for a 1998 conversion using a trustee-to-trustee transfer from a traditional IRA to a Roth IRA (without regard to whether or not the individual elected to have no withholding).[28]

TRANSFER TAXES

A traditional IRA will generally be fully includable in the estate of the original IRA owner. A decedent's estate includes the value of an annuity

or other payment receivable by reason of surviving the decedent where the decedent held certain interests in the property while alive. The amount includable is proportionate to the part of the purchase price contributed by the decedent. Any contribution by the employer of the decedent to the traditional IRA is treated as made by the employee for this purpose.[29] Thus, the original IRA owner will generally have contributed 100 percent of the contributions to the traditional IRA and the full value of the traditional IRA will be includable in the original owner's estate.

If upon the original owner's death the traditional IRA passes to the spouse of the original IRA owner, the transfer will generally qualify for the marital deduction (see Chapter 17). If the transfer to the surviving spouse qualified for the marital deduction, any amount still left in the traditional IRA at the surviving spouse's death will be includable in the surviving spouse's estate.

If the traditional IRA passes to a skip person (generally, a person two or more generations younger than the transferor), the generation-skipping transfer tax must be taken into consideration. See Chapter 18.

CHAPTER ENDNOTES

1. IRC Sec. 219(e)(1).
2. IRC Secs. 219(f)(3), 408(o)(3).
3. IRC Sec. 219(b)(1).
4. IRC Sec. 219(d)(1).
5. IRC Sec. 219(d)(4).
6. IRC Sec. 219(c).
7. IRC Sec. 219(g).
8. IRC Sec. 219(g)(7).
9. IRC Sec. 62(a)(7).
10. IRC Sec. 408(o)(2)(B)(ii).
11. IRC Sec. 408(o)(2).
12. IRC Secs. 219(b)(1), 408(o)(2), 408A(c)(2).
13. IRC Sec. 4973(a).
14. IRC Secs. 4973(b), 219(f)(6).
15. IRC Secs. 408(e), 408(m).
16. IRC Sec. 408(a)(3).
17. IRC Sec. 408(b).
18. IRC Secs. 408(e), 408(m).
19. IRC Secs. 408(d)(1), 408(d)(2), 72(b).
20. Notice 87-16(III), 1987-1 CB 446.
21. IRC Sec. 72(t).
22. Notice 89-25(A-12), 1989-1 CB 662.
23. IRC Secs. 408(a)(6), 408(b)(3), 401(a)(9), 4974(a).

24. Prop. Reg. §1.401(a)(9)-2(A-4).
25. See IRC Sec. 408(d)(3).
26. IRC Sec. 72(b)(3); Notice 89-25(A-7), 1989-1 CB 662, clarifying Notice 87-16(D-5), 1987-1 CB 446.
27. IRC Sec. 3405.
28. Reg. §1.408A-6(A-13).
29. IRC Sec. 2039.

Chapter 5

ROTH IRAS

Roth IRAs are a recent development that are popular for a number of reasons, most notably of which are: distributions from a Roth IRA can generally be arranged to be received tax-free, and required minimum distributions from a Roth IRA can be postponed until after the death of the individual and generally after the death of the individual's spouse.

Unlike with the traditional IRA, only nondeductible contributions can be made to a Roth IRA. The ability to make contributions to a Roth IRA is restricted if the individual has certain thresholds (depending on taxpayer filing status) of income. Contributions to a Roth IRA must essentially be made from compensation received by the individual. Unlike with the traditional IRA, contributions can be made to a Roth IRA even after the individual has attained age 70½.

Amounts contributed to a Roth IRA can be invested in a wide variety of investments. Such amounts grow within the IRA account on a tax-deferred (or possibly tax-free) basis; there may or may not be taxation when amounts are distributed.

Amounts distributed from a Roth IRA are generally received tax-free if the distribution is made more than five years after the creation of a Roth IRA and the distribution occurs after the individual turns age 59½, after the individual's death or disability, or if the distribution is for a first-time home purchase. Otherwise, distributions are generally treated as first made from nondeductible contributions and distributions attributable to nondeductible contributions are received tax-free.

Distributions received before the individual reaches age 59½ are generally subject to a premature distribution penalty tax to the extent the distribution is includable in income unless an exception applies. Required minimum distributions must be made from a Roth IRA or a penalty tax applies. However, with the Roth IRA such required minimum distributions can be postponed until after the death of the individual and,

generally, after the death of the individual's spouse. With the traditional IRA, such distributions must begin when the individual reaches age 70½.

Because distributions from a Roth IRA can often be received tax-free, it is generally preferable to make nondeductible contributions to a Roth IRA rather than nondeductible contributions to a traditional IRA unless contributions cannot be made to a Roth IRA because of the income thresholds for Roth IRAs. Furthermore, under some circumstances it may be preferable to make nondeductible contributions to a Roth IRA rather than it is to make deductible contributions to a traditional IRA (see Chapter 9).

CONTRIBUTIONS

An individual may make nondeductible contributions to a Roth IRA. Unlike with a traditional IRA, deductible contributions cannot be made to a Roth IRA. An individual may also make certain contributions to a Roth IRA for the individual's spouse. In addition, an employer may make contributions to an employee's Roth IRA. Contributions may be subject to various limitations. A rollover (see heading below) to a Roth IRA is generally not treated as a regular contribution to a Roth IRA.

Generally, unless the Code provides otherwise with respect to a Roth IRA, the general rules applicable to traditional IRAs apply.[1]

Contributions to a Roth IRA, as for all IRAs, must be made in cash.[2] Contributions for a taxable year may be made up until the time for filing the tax return for the year (not including extensions of time for filing): generally, April 15.[3]

Unlike with traditional IRAs, contributions can be made to a Roth IRA even after the individual has attained age 70½.[4] However, the individual (or perhaps the individual's spouse) generally must have compensation in order to make contributions to a Roth IRA. Thus, the ability to make post age 70½ contributions to a Roth IRA is generally lost unless the individual (or perhaps the individual's spouse) continues to work.

An individual can make nondeductible contributions to a Roth IRA up to the lesser of $2,000 or compensation includable in income. This

amount is reduced by any contributions to a traditional IRA or employee contributions to a SEP IRA.[5] Thus, the maximum amount that can be contributed to a Roth IRA equals the lesser of:

(1) the lesser of $2,000 or compensation, reduced by contributions to traditional IRAs and employee contributions to SEP IRAs; or

(2) the $2,000 amount as phased out based upon income (see below).[6]

Special rules apply to married individuals, or more specifically to an individual who files a joint return for the year where the individual's compensation includable in income for the year is less than the compensation includable in income for the year by the individual's spouse. In such case, a contribution can be made to a Roth IRA for up to the lesser of:

(1) $2,000 or

(2) the sum of (a) compensation includable in such individual's income and (b) compensation includable in the income of such individual's spouse.

For this purpose, the compensation includable in the income of such individual's spouse is reduced by (1) any deduction taken for contributions such spouse made to a traditional IRA or SEP IRA and (2) any contribution to a Roth IRA for such spouse.[7]

This special rule is often referred to as allowing contributions to be made for a nonworking spouse. However, the special rule may be of some use whenever one spouse has compensation of less than $2,000. It can allow contributions to be made for an individual with little or no compensation by taking into account compensation of such individual's spouse.

Example. Bob and Sue file a joint return for 2000. Bob has compensation of $80,000 and Sue has no compensation. Bob has contributed $2,000 to a Roth IRA. A $2,000 contribution can be made to a Roth IRA for Sue. The contribution is equal to the lesser of (1) $2,000, or (2) the sum of (a) Sue's compensation ($0) and (b) Bob's compensation ($80,000) reduced by the $2,000 contribution to Bob's Roth IRA.

The $2,000 permissible contribution amount is subject to phaseout based upon modified adjusted gross income (MAGI).[8] For this purpose, modified adjusted gross income means adjusted gross income, except that any amount taken into income from a qualified rollover to a Roth IRA is not taken into account and any deduction for contributions to a traditional IRA is taken into account.

The $2,000 amount is reduced by an amount equal to $2,000 multiplied by the ratio of the individual's modified adjusted gross income in excess of an applicable dollar amount to $15,000 ($10,000 in the case of a joint return or a married filing separate return).

$$\$2{,}000 \times \frac{\text{MAGI - applicable dollar amount}}{\$10{,}000} = \text{reduction}$$

Whenever the phaseout reduction is other than a multiple of $10, the reduction is rounded to the next lowest multiple of $10. However, where the $2,000 amount adjusted for phaseout based upon modified adjusted gross income is between $0 and $200, $200 can be contributed.

In the case of a joint return, the applicable dollar amount equals $150,000. Thus, in such case, the $2,000 amount is not reduced for modified adjusted gross income of up to $150,000, is reduced to $0 for modified adjusted gross income of $160,000 or more, and is proportionately reduced in the case of modified adjusted gross income between $150,000 and $160,000. See Figure 5.1.

In the case of a married filing separate return, the applicable dollar amount equals $0. Thus, in such case, the $2,000 amount is reduced to $0 for modified adjusted gross income of $10,000 or more, and is proportionately reduced in the case of modified adjusted gross income between $0 and $10,000. See Figure 5.1.

In all other cases, the applicable dollar amount equals $95,000. Thus, in the case of a single return or a head of household return, the $2,000 amount is not reduced for modified adjusted gross income of up to $95,000, is reduced to $0 for modified adjusted gross income of $110,000 or more, and is proportionately reduced in the case of modified adjusted gross income between $95,000 and $110,000. See Figure 5.2.

Figure 5.1

PHASEOUT OF CONTRIBUTIONS TO ROTH IRA - MARRIED TAXPAYER

MAGI in Excess of Applicable Dollar Amount	Maximum Contribution
$0	$2,000
$100	$1,980
$200	$1,960
$300	$1,940
$400	$1,920
$500	$1,900
$600	$1,880
$700	$1,860
$800	$1,840
$900	$1,820
$1,000	$1,800
$1,100	$1,780
$1,200	$1,760
$1,300	$1,740
$1,400	$1,720
$1,500	$1,700
$1,600	$1,680
$1,700	$1,660
$1,800	$1,640
$1,900	$1,620
$2,000	$1,600
$2,100	$1,580
$2,200	$1,560
$2,300	$1,540
$2,400	$1,520
$2,500	$1,500
$2,600	$1,480
$2,700	$1,460
$2,800	$1,440
$2,900	$1,420
$3,000	$1,400
$3,100	$1,380
$3,200	$1,360
$3,300	$1,340
$3,400	$1,320
$3,500	$1,300
$3,600	$1,280
$3,700	$1,260
$3,800	$1,240
$3,900	$1,220
$4,000	$1,200
$4,100	$1,180
$4,200	$1,160
$4,300	$1,140
$4,400	$1,120
$4,500	$1,100
$4,600	$1,080
$4,700	$1,060
$4,800	$1,040
$4,900	$1,020
$5,000	$1,000
$5,100	$980
$5,200	$960
$5,300	$940
$5,400	$920
$5,500	$900
$5,600	$880
$5,700	$860
$5,800	$840
$5,900	$820
$6,000	$800
$6,100	$780
$6,200	$760
$6,300	$740
$6,400	$720
$6,500	$700
$6,600	$680
$6,700	$660
$6,800	$640
$6,900	$620
$7,000	$600
$7,100	$580
$7,200	$560
$7,300	$540
$7,400	$520
$7,500	$500
$7,600	$480
$7,700	$460
$7,800	$440
$7,900	$420
$8,000	$400
$8,100	$380
$8,200	$360
$8,300	$340
$8,400	$320
$8,500	$300
$8,600	$280
$8,700	$260
$8,800	$240
$8,900	$220
$9,000	$200
$9,100	$200
$9,200	$200
$9,300	$200
$9,400	$200
$9,500	$200
$9,600	$200
$9,700	$200
$9,800	$200
$9,900	$200
$10,000	$0

Figure 5.2

PHASEOUT OF CONTRIBUTIONS TO ROTH IRA - NONMARRIED TAXPAYER

MAGI in Excess of Applicable Dollar Amount	Maximum Contribution
$0	$2,000
$100	$1,987
$200	$1,973
$300	$1,960
$400	$1,947
$500	$1,933
$600	$1,920
$700	$1,907
$800	$1,893
$900	$1,880
$1,000	$1,867
$1,100	$1,853
$1,200	$1,840
$1,300	$1,827
$1,400	$1,813
$1,500	$1,800
$1,600	$1,787
$1,700	$1,773
$1,800	$1,760
$1,900	$1,747
$2,000	$1,733
$2,100	$1,720
$2,200	$1,707
$2,300	$1,693
$2,400	$1,680
$2,500	$1,667
$2,600	$1,653
$2,700	$1,640
$2,800	$1,627
$2,900	$1,613
$3,000	$1,600
$3,100	$1,587
$3,200	$1,573
$3,300	$1,560
$3,400	$1,547
$3,500	$1,533
$3,600	$1,520
$3,700	$1,507
$3,800	$1,493
$3,900	$1,480
$4,000	$1,467
$4,100	$1,453
$4,200	$1,440
$4,300	$1,427
$4,400	$1,413
$4,500	$1,400
$4,600	$1,387
$4,700	$1,373
$4,800	$1,360
$4,900	$1,347
$5,000	$1,333
$5,100	$1,320
$5,200	$1,307
$5,300	$1,293
$5,400	$1,280
$5,500	$1,267
$5,600	$1,253
$5,700	$1,240
$5,800	$1,227
$5,900	$1,213
$6,000	$1,200
$6,100	$1,187
$6,200	$1,173
$6,300	$1,160
$6,400	$1,147
$6,500	$1,133
$6,600	$1,120
$6,700	$1,107
$6,800	$1,093
$6,900	$1,080
$7,000	$1,067
$7,100	$1,053
$7,200	$1,040
$7,300	$1,027
$7,400	$1,013
$7,500	$1,000
$7,600	$987
$7,700	$973
$7,800	$960
$7,900	$947
$8,000	$933
$8,100	$920
$8,200	$907
$8,300	$893
$8,400	$880
$8,500	$867
$8,600	$853
$8,700	$840
$8,800	$827
$8,900	$813
$9,000	$800
$9,100	$787
$9,200	$773
$9,300	$760
$9,400	$747
$9,500	$733
$9,600	$720
$9,700	$707
$9,800	$693
$9,900	$680
$10,000	$667
$10,100	$653

Figure 5.2 (continued)

PHASEOUT OF CONTRIBUTIONS TO ROTH IRA - NONMARRIED TAXPAYER

MAGI in Excess of Applicable Dollar Amount	Maximum Contribution	MAGI in Excess of Applicable Dollar Amount	Maximum Contribution
$10,200	$640	$12,700	$307
$10,300	$627	$12,800	$293
$10,400	$613	$12,900	$280
$10,500	$600	$13,000	$267
$10,600	$587	$13,100	$253
$10,700	$573	$13,200	$240
$10,800	$560	$13,300	$227
$10,900	$547	$13,400	$213
$11,000	$533	$13,500	$200
$11,100	$520	$13,600	$200
$11,200	$507	$13,700	$200
$11,300	$493	$13,800	$200
$11,400	$480	$13,900	$200
$11,500	$467	$14,000	$200
$11,600	$453	$14,100	$200
$11,700	$440	$14,200	$200
$11,800	$427	$14,300	$200
$11,900	$413	$14,400	$200
$12,000	$400	$14,500	$200
$12,100	$387	$14,600	$200
$12,200	$373	$14,700	$200
$12,300	$360	$14,800	$200
$12,400	$347	$14,900	$200
$12,500	$333	$15,000	$0
$12,600	$320		

Example. In 2000, a taxpayer filing a joint return with modified adjusted gross income of $153,333, can make a contribution to a Roth IRA of $1,340. This is calculated as follows:

$$\$2{,}000 \times \frac{\text{MAGI - applicable dollar amount}}{\$10{,}000} = \text{reduction}$$

round reduction down to next lowest multiple of $10

$2,000 - reduction = permissible contribution amount

$$\$2{,}000 \times \frac{\$153{,}333 - \$150{,}000}{\$10{,}000} = \$667$$

round $667 to $660

$2,000 - $660 = $1,340

Nondeductible contributions can also be made to a traditional IRA (see Chapter 4). However, contributions made to a traditional IRA are not subject to phaseout based upon income; although they are reduced by contributions made to a Roth IRA. Because distributions from a Roth IRA are generally subject to much more favorable rules than are distributions from a traditional IRA, it is generally advisable to make nondeductible contributions to a Roth IRA rather than nondeductible contributions to a traditional IRA, except to the extent that the individual's permissible contributions to a Roth IRA are phased out by the limitations based on income. For example, although the taxpayer in the example above can contribute only $1,340 to a Roth IRA, the taxpayer could make a nondeductible contribution to a traditional IRA of the $660 amount phased out with respect to the Roth IRA.

For a discussion of whether it is better to make deductible contributions to a traditional IRA or nondeductible contributions to a Roth IRA, see Chapter 9.

Contributions to traditional IRAs and Roth IRAs are subject to a combined overall limitation of $2,000.[9] Other IRAs have their own limitations.

In the case of an excess contribution to a Roth IRA, there is imposed a six percent penalty tax.[10] In general, an excess contribution is any portion of a contribution to a Roth IRA in excess of the limitations described above. An excess contribution continues to be subject to the penalty tax each year until the excess contribution is corrected. Therefore, it is necessary to keep a running account of excess contributions (i.e., it is necessary to keep track of contributions and distributions for the current year and preceding years in order to determine if there is an excess contribution for the current year.)

More technically, an excess contribution for any taxable year equals the sum of (1) the excess of contributions (does not include qualified rollovers, see heading below) to all Roth IRAs over the amount which can be contributed to all Roth IRAs for the year, and (2) amounts determined under this calculation for the preceding taxable year reduced by the sum of (a) distributions from Roth IRAs for the current year, and (b) the excess of the amount which can be contributed to all Roth IRAs for the year over the amount contributed to all Roth and traditional IRAs for the year. Thus,

an excess contribution carried over from a previous year can be used up as a contribution in a subsequent year.[11]

Example. Joe contributes $2,000 to a Roth IRA in 2000. However, Joe is a single taxpayer and his modified adjusted gross income (MAGI) for 2000 is $98,000. His MAGI exceeds $95,000 by $3,000; thus, the maximum he can contribute to the Roth for 2000 is $1,600 (see Figure 5.2). Joe has an excess contribution of $400 for 2000.

Example. Ann contributed $2,500 to a Roth IRA in 1999, resulting in an excess contribution of $500 ($2,500 - $2,000). Ann contributed $2,100 to the IRA in 2000, resulting in an excess contribution of $600 [($2,100 - $2,000) plus the $500 carryover from 1999]. In 2001, Ann does not contribute to the IRA. The $600 carryover from 2000 is treated as contributed in 2001 and is less than $2,000; there is no excess contribution.

An employer may make contributions to an employee's Roth IRA. The employer takes a deduction for the contribution as compensation paid to the employee. The employer withholds any FICA (social security tax), FUTA (federal unemployment tax), and income tax as appropriate. The employee includes the contribution in income as compensation. The same overall contribution level (generally, $2,000) described above also applies to contributions made by the employer, subject to the limitations based upon income thresholds described above.

See the discussion of Simplified Employee Pensions (SEPs) in Chapter 7 and SIMPLE IRAs (Savings Incentive Match Plan for Employees IRAs) in Chapter 8, for IRAs specifically designed for employer/employee programs.

ACCUMULATIONS / INVESTMENTS

Amounts earned within a Roth IRA generally accumulate on a tax-deferred basis. As described below, distributions from a Roth IRA can generally be arranged so that earnings are not taxable even when distributed from the Roth IRA. However, a Roth IRA is taxed if it has unrelated business taxable income. Furthermore, part or all of the Roth IRA may be deemed distributed if the IRA owner engages in a prohibited transaction, borrows on an annuity contract, pledges the account as security for a loan,

purchases an endowment contract, or invests in certain collectibles.[12] A Roth IRA account, as with all IRA accounts, cannot invest in life insurance contracts.[13] The IRA can be in the form of an individual retirement annuity.[14]

An individual retirement annuity is an annuity contract or endowment contract issued by an insurance company meeting certain requirements: (1) the contract cannot be transferable by the owner; (2) the premiums may not be fixed; (3) the annual premium cannot exceed $2,000; (4) any refund of premiums must be applied before the end of the next year to pay future premiums or to purchase additional benefits; (5) the required minimum distribution and minimum distribution incidental death benefit rules apply; and (6) the entire interest of the owner must be nonforfeitable. For this purpose, an endowment contract cannot mature later than the taxable year in which the IRA owner reaches age 70½ and must be for the exclusive benefit of the IRA owner or beneficiary. Aggregate annual premiums for all endowment contracts purchased for the IRA owner exceed $2,000.

DISTRIBUTIONS

Distributions of amounts from a Roth IRA can generally be arranged so that distributions are not taxable when distributed from the Roth IRA. Amounts distributed before the Roth IRA owner reaches age 59½ that are includable in income are subject to a premature distribution penalty tax unless certain exceptions are met. Required minimum distributions do not have to begin until after the Roth IRA owner's death (i.e., distributions do not have to begin when the Roth IRA owner reaches age 70½). A rollover (see heading below) from a Roth IRA is generally not treated as a distribution from a Roth IRA.

Part or all of the Roth IRA may be deemed distributed if the IRA owner engages in a prohibited transaction, borrows on an annuity contract, pledges the account as security for a loan, purchases an endowment contract, or invests in certain collectibles.[15]

If the Roth owner makes a gift of the Roth IRA to another, the assets of the Roth IRA are deemed distributed from the Roth IRA.[16]

Amounts distributed from a Roth IRA generally represent one of two categories: contributions to the IRA, and earnings on contributions within

the IRA. For this purpose, amounts rolled over to a Roth IRA are deemed contributions. Earnings on contributions within the IRA generally accumulate tax-free (see above); therefore earnings on contributions represent property that has not been subjected to income tax. However, nondeductible contributions to the IRA are contributed on an after-tax basis.

As a result, nondeductible contributions to a Roth IRA can be recovered tax-free from the IRA (similar to investment in the contract or basis). However, earnings on contributions within a Roth IRA are includable in income upon distribution from a Roth IRA unless the distribution is a "qualified distribution."[17]

A qualified distribution is excludable from income. A qualified distribution is a distribution from a Roth IRA that is made after the five-taxable-year period beginning in the year in which the first contribution was made to a Roth IRA and that is:

(1) made on or after the date the Roth IRA owner turns 59½;

(2) made after the death of the Roth IRA owner (which means after the death of the surviving spouse where a surviving spouse elects to treat the deceased spouse's Roth IRA as the surviving spouse's own);

(3) attributable to disability of the Roth IRA owner; or

(4) made to the Roth IRA owner ($10,000 lifetime limit) for purchase of a first home by the IRA owner, the IRA owner's spouse, or children, grandchildren, or ancestor of either.

The five-year period for qualified distribution purposes begins as soon as a contribution is made to a Roth IRA (a different five-year period applies to contributions attributable to a qualified rollover, see below). Therefore, it may be advisable for an individual to make a contribution to a Roth IRA in the first year possible to start the running of the five-year period. Note that a contribution made by April 15 of a year that is treated as made for the previous year is treated similarly for this purpose. There can be no qualified distributions before 2003 because the first year for which contributions could be made to a Roth IRA was 1998 and a five-year period must run before qualified distributions can be taken.

Example. John contributes $1,000 to a Roth IRA for 1998 by April 15, 1999. He makes additional contributions in later years. Starting in 2003 (the sixth year after 1998), John (or his survivor) can begin taking qualified distributions (assuming one of the other requirements — post age 59½, death, disability, or first time home purchase — is met) from the Roth IRA.

It is necessary to calculate the part of a distribution from a Roth IRA that can be excluded from income when the distribution is not a qualified distribution. For this purpose, distributions are generally treated as first coming from contributions (i.e., investment in the contract or the nontaxable part) and all Roth IRAs are treated as one.

More specifically, a distribution is treated as made from contributions to the extent that the amount of the distribution plus all previous distributions does not exceed aggregate contributions to the IRA. Distributions treated as made from contributions are then treated as made first from contributions other than a qualified rollover, and then from qualified rollover contributions (on a first-in, first-out basis). Qualified rollover contributions are treated as made from qualified rollover contributions includable in income and then from qualified rollover contributions not includable in income. An early distribution of a qualified rollover (see heading below) can result in acceleration of tax on a 1998 rollover or imposition of the premature penalty tax.[18]

Example. Mary contributes $2,000 to a Roth IRA in both 1998 and 1999. Mary makes no other contributions to a Roth IRA. In 2002, Mary withdraws $1,200 from the IRA in a nonqualified distribution. The full $1,200 is excludable from income ($1,200 does not exceed aggregate contributions of $4,000).

In 2003, Mary withdraws $1,900 from the Roth IRA in a qualified distribution. The distribution is excludable from income.

In 2004, Mary withdraws $1,500 from the Roth IRA in a nonqualified distribution. The distribution is excludable from income only to the extent of $900, and $600 is includable in income (distributions of $1,200 plus $1,900 plus $1,500 exceed aggregate contributions of $4,000 by $600).

The income tax basis of property distributed from a Roth IRA is its fair market value on the date of the distribution.[19]

Premature Distributions

In general, distributions from a Roth IRA received before age 59½ are subject to a 10 percent penalty tax on premature distributions. However, the penalty tax only applies to the extent that the distribution is includable in income and a number of exceptions to application of the penalty apply.[20] In addition, distributions from a Roth IRA of rollover contributions within five years of the rollover to the Roth IRA are subject to the penalty tax to the extent that the distribution was includable in income as a result of the conversion (i.e., rollover) unless an exception applies.[21]

The premature distribution penalty tax does not apply to distributions from a Roth IRA that are:

(1) made after the death of the IRA owner (the exception does not apply to distributions made to a surviving spouse who elects to treat the Roth IRA as his or her own);

(2) attributable to the IRA owner's disability;

(3) part of a series of substantially equal periodic payments (at least annually) made for the life (or life expectancy) or the joint life (or life expectancies) of the IRA owner and a designated beneficiary (the penalty tax plus interest is due if the substantially equal periodic payments are modified before the later of five years after payments have begun or the IRA owner reaches age 59½);

(4) made for medical care to the extent generally allowable as a medical expense deduction (generally, unreimbursed medical expenses in excess of 7.5 percent of adjusted gross income; for this purpose, itemization of deductions is not required);

(5) made to the IRA owner who is unemployed for payment of health insurance premiums;

(6) made to the IRA owner for payment of qualified higher education expenses furnished to the IRA owner, the IRA owner's spouse, or children or grandchildren of either; or

(7) made to the IRA owner ($10,000 lifetime limit) for purchase of a first home by the IRA owner, the IRA owner's spouse, or children, grandchildren, or ancestor of either.

The IRS has approved three methods for calculating substantially equal periodic payments:

(1) payments which satisfy the required minimum distributions method (see heading below);

(2) amortization of payments over the life expectancy of the IRA owner (Annuity Table V, see Appendix A) or joint and survivor life expectancy of the IRA owner and beneficiary (Annuity Table VI, see Appendix A) using a reasonable interest rate; and

(3) annuitization of payments for the life of the IRA owner or the lives of the IRA owner and beneficiary using a reasonable mortality table and interest rate.[22]

The first method requires recalculation of payments each year, while the second and third methods provide constant payments. And as noted above, the substantially equal periodic payments method cannot be modified before the later of five years after payments have begun or the IRA owner reaches age 59½.

For additional discussion of the premature distribution penalty, including examples of the three substantially equal payment methods, see Chapter 13.

Required Minimum Distributions

A Roth IRA owner does not have to begin taking required minimum distributions when the owner reaches age 70½. However, the required minimum distribution rules do apply once the IRA owner dies. In general, the required minimum distribution rules cause the surviving designated

beneficiary of the Roth IRA to withdraw the entire IRA account balance over the life of the designated beneficiary. If there is more than one beneficiary, the oldest beneficiary's life expectancy is used for the designated beneficiary. Special rules apply where the spouse of the IRA owner is the designated beneficiary. Failure to withdraw the required minimum distribution results in a 50 percent penalty tax on the amount by which the required minimum distribution exceeds the actual amount withdrawn.[23]

An additional rule, the minimum distribution incidental benefit rule, generally designed to insure that the IRA distributions are primarily for the benefit of the IRA owner, does not apply to a Roth IRA. This rule ordinarily applies while the IRA owner is alive, by treating a beneficiary other than the spouse of the IRA owner as no more than 10 years younger than the IRA owner. However, consistent with the required minimum distribution rules not applying until after the death of the Roth IRA owner, the minimum distribution incidental benefit rule does not apply to a Roth IRA.

In the case of a Roth IRA, required minimum distributions must begin after the death of the IRA owner. Generally, required minimum distributions must be made by December 31st of each year.

After the death of the Roth IRA owner, the entire IRA account must be distributed within five years of the owner's death unless the IRA owner has designated a beneficiary. Where the IRA owner has designated a beneficiary, distributions may be made over the life expectancy (Table V) of the beneficiary as long as such distributions begin within one year of the owner's death.

However, where the spouse of the Roth IRA owner is the designated beneficiary, after the owner's death such spouse can generally elect to be treated as the owner of the Roth IRA for purposes of the required minimum distribution rules. If the surviving spouse elects to be treated as owner of the Roth IRA, required minimum distributions would not have to begin until after the death of such spouse. Even if the election were not made, such spouse could postpone required minimum distributions until such time as the former IRA owner would have reached age 70½.

Required minimum distributions are calculated for Roth IRAs separately from all other IRAs. Required minimum distributions for plans other than a Roth IRA cannot be made from a Roth IRA, nor can required minimum distributions for Roth IRAs be made from other plans. Furthermore, where minimum distributions are required of a beneficiary of a Roth IRA, required minimum distributions can be made from another Roth IRA only if the two Roth IRAs were inherited from the same decedent.[24]

The required minimum distribution for each year is generally calculated by dividing the Roth IRA account balance as of the end of the previous year by the life expectancy of the designated beneficiary. Life expectancies are based upon annuity Table V (see Appendix A).

Generally, required minimum distributions are calculated using either a recalculation method or the "subtract one" method. The recalculation method is available only for calculations of the life expectancy of the IRA owner and the spouse of the IRA owner. It essentially involves recalculating the life expectancy of the IRA owner and/or spouse of the IRA owner each year by reentering the life expectancy tables.

However, in the case of a Roth IRA, distributions are generally not required while the original IRA owner or a surviving spouse of the original IRA owner who elects to be treated as the owner of the Roth IRA are alive. Therefore, the "subtract one" method will generally be the method used for calculating required minimum distributions from a Roth IRA.

The "subtract one" method involves determining the life expectancy of the designated beneficiary in the year following the year the IRA owner died and then subtracting one from the life expectancy in each year thereafter. For example, if the designated beneficiary is age 50 in the year after the year the IRA owner died, life expectancy is 33.1 (see Table V) for that year, 32.1 (32.1 - 1) in the following year, and so on. Even if the designated beneficiary dies, payments are made over the 33.1 years of initial life expectancy.

For additional discussion of the required minimum distribution penalty, including the different required minimum distribution methods and examples thereof, see Chapter 13.

ROLLOVERS

Rollovers are permitted between qualified plans, IRAs, and tax sheltered annuities. In general, a rollover is a transfer of retirement assets from one plan to another by the participant or owner that is completed within 60 days. The effect of a rollover is generally to avoid taxes and penalties upon what otherwise would be treated as a distribution. However, any rollover from an IRA other than a Roth IRA to a Roth IRA is a taxable event.[25]

Only one rollover is permitted from a particular IRA to any other IRA during the one-year period ending with the transfer from the first IRA. Also, in an IRA to IRA rollover, the receiving IRA cannot be an endowment contract.

Certain rollovers can be made to and from a Roth IRA. The only rollovers permitted to a Roth IRA are from other Roth IRAs, traditional IRAs, SEP IRAs, and SIMPLE IRAs. (An indirect rollover from qualified plans or tax sheltered annuities may be accomplished through a rollover to a traditional IRA followed by a rollover of the traditional IRA to a Roth IRA.) However, a rollover is not permitted from a SIMPLE IRA to any other IRA including a Roth IRA during the first two years that the individual participates in the SIMPLE IRA.

In general, rollovers to or from a Roth IRA are accomplished either by (1) having the trustee of the first IRA transfer IRA property directly to the trustee of the second IRA, or (2) having the trustee of the first IRA distribute the IRA property to the IRA owner who then transfers the IRA property to the trustee of the second IRA within 60 days of the distribution from the first IRA. In addition, a rollover to a Roth IRA can be accomplished by simply converting the other IRA into a Roth IRA.

An individual can generally rollover (or convert) an amount in one of these other IRAs to a Roth IRA unless the individual's adjusted gross income for the year exceeds $100,000 or the individual is married and files a separate return. For tax years after 2004, adjusted gross income will not include any required minimum distributions for this purpose. The primary reason for doing such a qualified rollover is to obtain the benefit of the generally more favorable rules for distributions from a Roth IRA. The

price of making such a qualified rollover to a Roth IRA is that the amount in the other IRA is treated as distributed from the other IRA for income tax purposes in the year rolled over. For qualified rollovers in 1998, the amount otherwise includable in income could be included in income over a four-year period.[26]

Thus, if a traditional IRA, SEP IRA, or SIMPLE IRA is converted to a Roth IRA, the amount distributed from the other IRA is includable in income for the year of distribution under the rules for such other IRA. However, the premature distribution penalty tax does not apply to such distribution. Nevertheless, the premature distribution rule will apply to any distribution from the Roth IRA made within the five-year period starting with the year of the rollover or conversion if the distribution is allocable to the qualified rollover contribution.

If a qualified rollover occurred in 1998, the IRA owner could elect to include the amount includable in income from the qualified rollover ratably over the four-year period from 1998 to 2001.

Example. Ralph converted his traditional IRA to a Roth IRA in 1998 in a qualified rollover. The account balance of the traditional IRA was equal to $50,000 and no nondeductible contributions had been made to the traditional IRA. If Ralph made the election, Ralph could include in income $12,500 in each year from 1998 to 2001. If Ralph did not make the election, Ralph would include in income for 1998 the full $50,000 distribution from the traditional IRA. In either case, the premature distribution penalty tax would not apply to the distribution.

Example. Rachel converts her traditional IRA to a Roth IRA in 1999 in a qualified rollover. The account balance of the traditional IRA is equal to $100,000 and no nondeductible contributions have been made to the traditional IRA. Rachel includes in income for 1999 the full $100,000 distribution from the traditional IRA, but the premature distribution penalty tax does not apply to the distribution.

If the qualified rollover was made in 1998, distributions from the Roth IRA made within the first three years (i.e., 1998, 1999, and 2000) of the four-year period starting with the rollover or conversion of the other IRA to a Roth IRA cause income deferred over the four-year period to be

accelerated. This is accomplished by increasing the amount included in income for the year under the four-year spread by the aggregate distributions from Roth IRAs for the year that would be allocated to the taxable portion of the qualified rollover. However, the total increase under this rule is limited to the aggregate amount required to be included in income under the four-year spread reduced by such amounts included in income in preceding years.[27]

Example. Jack converts his traditional IRA to a Roth IRA in 1998. The account balance of the traditional IRA is equal to $80,000 and $20,000 of nondeductible contributions have been made to the traditional IRA. Ralph elects to include in income $15,000 ($60,000 ÷ 4) in each year from 1998 to 2001. In 1998, Ralph also makes a regular contribution of $2,000 to the Roth IRA and takes a distribution of $2,000 from the Roth IRA. The distribution is treated as made from regular contributions. Therefore, only the $15,000 for which the election was made is includable in income for 1998.

Example. Assume the distribution for the previous example was $5,000. The distribution is treated as made $2,000 from regular contributions and $3,000 from conversion contributions includable in income. Therefore, Jack must include $18,000 in income for 1998 ($15,000 under the four-year spread + $3,000 from conversion contributions includable in income). Furthermore, the $3,000 amount is subject to the premature penalty tax unless an exception applies.

If the individual making the qualified rollover elects the four-year spread for 1998 and dies before all amounts under the four-year spread have been included in income, all remaining amounts are generally includable in income for the year of death. However, a surviving spouse, who receives the entire Roth IRA to which the qualified rollover contribution is properly allocated, can elect to continue including such amounts in income using the four-year spread.[28]

If the rollover from the traditional IRA, SEP IRA or SIMPLE IRA is not a qualified rollover, then the amount of the rollover is treated as distributed from the original IRA and subject to income tax based upon the rules for distributions from such IRA, including the penalty tax for premature distributions if appropriate. The distributed amount is then treated as contributed to the Roth IRA. Most likely such a contribution to

the Roth IRA would create an excess contribution subject to the excess contribution penalty tax until corrected.

An "unqualified" rollover to a Roth IRA can be a very taxing event. A taxpayer who makes a conversion to a Roth IRA and discovers that the rollover would not be qualified (e.g., adjusted gross income for the year exceeds $100,000) can elect to recharacterize the contribution to the Roth IRA as being to a traditional IRA and avoid the "unqualified" rollover. The recharacterization must occur within the time for filing a tax return for the year of the original rollover to the Roth IRA.

Indeed, any person who converts a traditional, SEP, or SIMPLE IRA to a Roth IRA can recharacterize the contribution to the Roth IRA as being made instead back to such other IRA type and avoid the tax upon conversion to the Roth IRA. However, certain restrictions are placed upon a person who recharacterizes a contribution to a Roth IRA as being made to such other IRA type. If the recharacterization occurred in 1998, the person could reconvert back to a Roth IRA once (but only once) during November and December 1998 and could reconvert back to a Roth IRA once (but only once) during 1999. If the recharacterization occurs in 1999 and there has been no previous conversion, the person can reconvert back to a Roth IRA once (but only once) during 1999. If the recharacterization occurs after 1999, the person can reconvert back to a Roth IRA but only after the later of (1) the beginning of the next year, or (2) 30 days after the recharacterization.[29]

When the stock market dropped in 1998, conversions and reconversions were made by persons attempting to reduce the amount taxable upon switching to a Roth IRA as the value of their IRAs dropped. The requirement that a person essentially wait until the later of the following year or 30 days to reconvert back to a Roth IRA reduces, but does not eliminate, the potential value of this technique.

For additional discussion of conversions to a Roth IRA, including some analysis of whether to convert to a Roth IRA, see Chapter 12.

Rollovers to or from an Education IRA are permitted only from or to another Education IRA. Therefore, rollovers cannot be made from an Education IRA to a Roth IRA or from a Roth IRA to an Education IRA.

A rollover from a Roth IRA can be made only to another Roth IRA.

LOSSES (UNRECOVERED BASIS)

The Code provides that if annuity payments from an IRA end upon the death of the annuitant and there is still unrecovered investment in the contract, the unrecovered investment in the contract is allowable as a deduction for the annuitant's final tax year. However, if refund payments are made to a beneficiary or the annuitant's estate after the annuitant's death, the deduction for unrecovered investment in the contract is taken by the person receiving the refund payments for the year in which received. The IRS provides additionally that when all amounts from all IRAs have been distributed and the amounts distributed are less than the unrecovered basis, a loss may be recognized.[30]

Example. Jan contributes $2,000 to a Roth IRA in each of four years (a total of $8,000). The IRA earns $1,000 during the four years. The IRA account balance is then $9,000 ($8,000 + $1,000). Jan then withdraws $3,000 in a nonqualified distribution. The amount excludable from income as investment in the contract equals $3,000 (distribution of $3,000 does not exceed aggregate contributions of $8,000). The unrecovered investment in the contract equals $5,000 ($8,000 - $3,000). The IRA account balance equals $6,000 ($9,000 - $3,000).

The next year, the IRA account balance drops in value to $4,000 (i.e., a loss in value of $2,000). Jan withdraws the entire $4,000 in a nonqualified distribution. No amount is includable in income (distributions of $3,000 plus $4,000 does not exceed aggregate contributions of $8,000). Furthermore, Jan may claim a loss of $1,000 ($5,000 - $4,000).

WITHHOLDING

Distributions from a Roth IRA are distributions from a retirement plan subject to withholding unless the individual elects to have withholding not apply. Thus, unless the election is made, periodic payments from a Roth IRA are subject to withholding at regular withholding rates and nonperiodic payments from a Roth IRA are subject to withholding at a 10 percent rate.[31]

A conversion of any other IRA into a Roth IRA (a qualified rollover) is a distribution subject to the withholding rules above. However, with-

holding was not required for a 1998 conversion using a trustee-to-trustee transfer from a traditional IRA, SEP IRA, or SIMPLE IRA to a Roth IRA (without regard to whether or not the individual elected to have no withholding).[32]

TRANSFER TAXES

A Roth IRA will generally be fully includable in the estate of the original IRA owner. A decedent's estate includes the value of an annuity or other payment receivable by reason of surviving the decedent where the decedent held certain interests in the property while alive. The amount includable is proportionate to the part of the purchase price contributed by the decedent. Any contribution by the employer of the decedent to the Roth IRA is treated as made by the employee for this purpose.[33] Thus, the original IRA owner will generally have contributed 100 percent of the contributions to the Roth IRA and the full value of the Roth IRA will be includable in the original owner's estate.

If upon the original owner's death the Roth IRA passes to the spouse of the original IRA owner, the transfer will generally qualify for the marital deduction (see Chapter 17). If the transfer to the surviving spouse qualified for the marital deduction, any amount still left in the Roth IRA at the surviving spouse's death will be includable in the surviving spouse's estate.

If the Roth owner assigns his interest in the Roth IRA to another, the Roth IRA owner makes a gift of the Roth IRA. The first $10,000 as indexed of such a gift can generally qualify for the gift tax annual exclusion. If the donee is the spouse of the IRA owner, the gift should qualify for the gift tax marital deduction. However, if the Roth owner makes a gift of the Roth IRA to another, the assets of the Roth IRA are deemed distributed from the Roth IRA for income tax purposes.[34]

If the beneficiary of the Roth IRA following a gift or at death is two or more generations younger than the Roth IRA owner, there is a generation-skipping transfer subject to the 55 percent generation-skipping transfer tax. A $1 million (as indexed) generation-skipping transfer tax exemption is available to protect the transfer from the tax.

CHAPTER ENDNOTES

1. IRC Sec. 408A(a).
2. IRC Sec. 219(e)(1).
3. IRC Secs. 219(f)(3), 408(o)(3).
4. IRC Sec. 408A(c)(4).
5. IRC Secs. 408A(c)(2), 219(c).
6. Reg. §1.408A-3(A-3).
7. IRC Sec. 219(c).
8. IRC Sec. 408A(c)(3).
9. IRC Secs. 219(b)(1), 408(o)(2), 408A(c)(2).
10. IRC Sec. 4973(a).
11. IRC Sec. 4973(f), 219(f)(6).
12. IRC Secs. 408(e), 408(m).
13. IRC Sec. 408(a)(3).
14. IRC Sec. 408(b).
15. IRC Secs. 408(e), 408(m).
16. Reg. §1.408A-6(A-19).
17. IRC Sec. 408A(d).
18. IRC Sec. 408A(d)(4).
19. Reg. §1.408A-6(A-16).
20. IRC Sec. 72(t).
21. IRC Sec. 408A(d)(3)(F).
22. Notice 89-25(A-12), 1989-1 CB 662.
23. IRC Secs. 408(a)(6), 408(b)(3), 401(a)(9), 4974(a).
24. Reg. §1.408A-6(A-15).
25. See IRC Sec. 408(d)(3).
26. IRC Sec. 408A(d)(3).
27. IRC Sec. 408A(d)(3)(E)(i).
28. IRC Sec. 408A(d)(3)(E)(ii).
29. Reg. §1.408A-5(A-9).
30. IRC Sec. 72(b)(3); Notice 89-25(A-7), 1989-1 CB 662 clarifying Notice 87-16(D-5), 1987-1 CB 446.
31. IRC Sec. 3405.
32. Reg. §1.408A-6(A-13).
33. IRC Sec. 2039.
34. Reg. §1.408A-6(A-19).

Chapter 6

EDUCATION IRAS

Education IRAs are a recent development whose popularity is yet to be determined. Education IRAs offer the promise of tax-free distributions for qualified higher education expenses and the ability to make present interest annual exclusion gifts for benefits likely to be received in the future. Education IRAs are unique among IRAs in that contributions can be made on behalf of any person (but only if the person is under age 18); other IRAs generally permit contributions to the IRA by only the IRA owner, or perhaps by the spouse or employer of the IRA owner. However, Education IRAs are hampered by the minimal contributions which can be made to such an IRA.

Unlike with the traditional IRA, but similar to the Roth IRA, only nondeductible contributions (a maximum of $500) can be made to an Education IRA. Unlike with other IRAs, there is no requirement that contributions can be made only if there is compensation. And, as noted above, contributions can be made on behalf of any individual less than 18 years of age. However, all contributions by all individuals contributing to all Education IRAs for the benefit of an individual are aggregated for purposes of the $500 limitation. Also, the ability to make contributions to an Education IRA is restricted if the contributor has certain thresholds (depending on taxpayer filing status) of income.

Amounts contributed to an Education IRA can be invested in a wide variety of investments. Such amounts grow within the IRA account on a tax-deferred (or possibly tax-free) basis; there may or may not be taxation when amounts are distributed.

Amounts distributed from an Education IRA are generally received tax-free if the distribution is entirely for qualified higher education expenses. However, where the distribution is not entirely for qualified higher education expenses, proration is required between contributions and earnings and then between qualified higher education expenses and other expenditures. Only the portion of the distribution attributable to

earnings allocated to other than qualified higher education expenses is includable in income.

Distributions received from an Education IRA are generally subject to a premature distribution penalty tax to the extent the distribution is includable in income unless an exception applies. The entire Education IRA must generally be distributed when the beneficiary reaches age 30 or dies. Such a forced distribution could be avoided by changing to another qualified beneficiary before such events occur.

DEFINITIONS

An Education IRA is a trust created or organized in the U.S. exclusively for the payment of the qualified higher education expenses of the designated beneficiary. The IRA must be designated as being an Education IRA at the time it is created or organized. The written document creating the Education IRA must provide that contributions must be made in cash, cannot be made once the beneficiary reaches age 18, and cannot, in the aggregate, exceed $500 for any year. Similar to other IRAs, an Education IRA must also provide that the trustee be a bank or another person who demonstrates the ability to handle IRA requirements, investment in life insurance contracts is not permitted, and assets in an Education IRA may not be commingled with other assets except in a common trust fund. In general, the Education IRA account balance must be distributed within 30 days of the beneficiary reaching age 30 or dying.[1] These, and other requirements for Education IRAs, are generally discussed in more detail below.

Qualified higher education expenses include tuition, fees, books, supplies, equipment, and room and board (in the case of a student attending at least half-time) of a designated beneficiary at an eligible education institution. Qualified higher education expenses also include amounts paid to a qualified state tuition program for the benefit of the beneficiary of the Education IRA.[2]

CONTRIBUTIONS

An individual may make nondeductible contributions to an Education IRA on behalf of any beneficiary up until the day after the beneficiary's 18th birthday. Unlike with a traditional IRA, deductible contributions

cannot be made to an Education IRA. Contributions may be subject to various limitations. A rollover (see heading below) to an Education IRA is generally not treated as a contribution to an Education IRA for purposes of limitations on contributions.

Contributions to an Education IRA, as for all IRAs, must be made in cash.[3] The Code refers to contributions being made to an Education IRA for the taxable year.[4] There is no provision that would appear to permit contributions to an Education IRA for a taxable year to be made up until the time for filing the tax return for the year (not including extensions of time for filing — i.e., generally, April 15) as is permitted with other IRAs.[5] Caution would seem to indicate that contributions to an Education IRA should be made by December 31.

Contributions cannot be made to an Education IRA after the beneficiary's 18th birthday.[6] Nor can contributions be made to an Education IRA in any year that contributions are made to a qualified state tuition program.[7]

An individual can make nondeductible contributions to an Education IRA of up to $500 per year. There is no requirement that the individual have compensation includable in income. This amount is not affected by any contributions to traditional and Roth IRAs. However, the $500 maximum amount applies to all contributions made by anyone to any Education IRA on behalf of a particular beneficiary.[8]

> *Example.* If grandparents and parents of Tom wish to make contributions to an Education IRA for Tom, the maximum amount which can be contributed by all of them in total is $500 per year. Thus, if in 2000 the grandparents contribute $200, the parents can contribute $300.

The $500 permissible contribution amount is subject to phaseout based upon the modified adjusted gross income of the contributor.[9] For this purpose, modified adjusted gross income means adjusted gross income increased by certain amounts excluded from income for citizens or residents living abroad or residents of certain possessions of the United States.

The $500 amount is reduced by an amount equal to $500 multiplied by the ratio of the individual's modified adjusted gross income (MAGI)

in excess of $95,000 ($150,000 in the case of a joint return) to $15,000 ($10,000 in the case of a joint return).

$$\$500 \times \frac{\text{AGI - applicable dollar amount}}{\$15{,}000\ (\$10{,}000\ \text{if joint return})} = \text{reduction}$$

Thus, in the case of a joint return, the $500 amount is not reduced for modified adjusted gross income of up to $150,000, is reduced to $0 for modified adjusted gross income of $160,000 or more, and is proportionately reduced in the case of modified adjusted gross income between $150,000 and $160,000. See Figure 6.1.

In all other cases (i.e., a single return, a head of household return, or a married filing separate return), the $500 amount is not reduced for modified adjusted gross income of up to $95,000, is reduced to $0 for modified adjusted gross income of $110,000 or more, and is proportionately reduced in the case of modified adjusted gross income between $95,000 and $110,000. See Figure 6.2.

Example. In 2000, a taxpayer filing a joint return with modified adjusted gross income of $153,333, can make a contribution to an Education IRA of $333. This is calculated as follows:

$$\$500 \times \frac{\text{AGI - applicable dollar amount}}{\$10{,}000} = \text{reduction}$$

$$\$500 - \text{reduction} = \text{adjusted dollar limit}$$

$$\$500 \times \frac{\$153{,}333 - \$150{,}000}{\$10{,}000} = \$167$$

$$\$500 - \$167 = \$333$$

In the case of an excess contribution to an Education IRA, there is imposed a six percent penalty tax on the IRA owner.[10] In general, an excess contribution is any portion of a contribution to an Education IRA in excess of the limitations described above. However, it is necessary to keep a running account of excess contributions (i.e., it is necessary to keep track of contributions and distributions for the current year and preceding years in order to determine if there is an excess contribution for the current year).

Figure 6.1

PHASEOUT OF CONTRIBUTIONS TO EDUCATION IRA - JOINT RETURN

MAGI in Excess of Applicable Dollar Amount	Maximum Contribution
$0	$500
$100	$495
$200	$490
$300	$485
$400	$480
$500	$475
$600	$470
$700	$465
$800	$460
$900	$455
$1,000	$450
$1,100	$445
$1,200	$440
$1,300	$435
$1,400	$430
$1,500	$425
$1,600	$420
$1,700	$415
$1,800	$410
$1,900	$405
$2,000	$400
$2,100	$395
$2,200	$390
$2,300	$385
$2,400	$380
$2,500	$375
$2,600	$370
$2,700	$365
$2,800	$360
$2,900	$355
$3,000	$350
$3,100	$345
$3,200	$340
$3,300	$335
$3,400	$330
$3,500	$325
$3,600	$320
$3,700	$315
$3,800	$310
$3,900	$305
$4,000	$300
$4,100	$295
$4,200	$290
$4,300	$285
$4,400	$280
$4,500	$275
$4,600	$270
$4,700	$265
$4,800	$260
$4,900	$255
$5,000	$250
$5,100	$245
$5,200	$240
$5,300	$235
$5,400	$230
$5,500	$225
$5,600	$220
$5,700	$215
$5,800	$210
$5,900	$205
$6,000	$200
$6,100	$195
$6,200	$190
$6,300	$185
$6,400	$180
$6,500	$175
$6,600	$170
$6,700	$165
$6,800	$160
$6,900	$155
$7,000	$150
$7,100	$145
$7,200	$140
$7,300	$135
$7,400	$130
$7,500	$125
$7,600	$120
$7,700	$115
$7,800	$110
$7,900	$105
$8,000	$100
$8,100	$95
$8,200	$90
$8,300	$85
$8,400	$80
$8,500	$75
$8,600	$70
$8,700	$65
$8,800	$60
$8,900	$55
$9,000	$50
$9,100	$45
$9,200	$40
$9,300	$35
$9,400	$30
$9,500	$25
$9,600	$20
$9,700	$15
$9,800	$10
$9,900	$5
$10,000	$0

Figure 6.2

PHASEOUT OF CONTRIBUTIONS TO EDUCATION IRA - OTHER THAN JOINT RETURN

MAGI in Excess of Applicable Dollar Amount	Maximum Contribution	MAGI in Excess of Applicable Dollar Amount	Maximum Contribution
$0	$500	$5,200	$327
$100	$497	$5,300	$323
$200	$493	$5,400	$320
$300	$490	$5,500	$317
$400	$487	$5,600	$313
$500	$483	$5,700	$310
$600	$480	$5,800	$307
$700	$477	$5,900	$303
$800	$473	$6,000	$300
$900	$470	$6,100	$297
$1,000	$467	$6,200	$293
$1,100	$463	$6,300	$290
$1,200	$460	$6,400	$287
$1,300	$457	$6,500	$283
$1,400	$453	$6,600	$280
$1,500	$450	$6,700	$277
$1,600	$447	$6,800	$273
$1,700	$443	$6,900	$270
$1,800	$440	$7,000	$267
$1,900	$437	$7,100	$263
$2,000	$433	$7,200	$260
$2,100	$430	$7,300	$257
$2,200	$427	$7,400	$253
$2,300	$423	$7,500	$250
$2,400	$420	$7,600	$247
$2,500	$417	$7,700	$243
$2,600	$413	$7,800	$240
$2,700	$410	$7,900	$237
$2,800	$407	$8,000	$233
$2,900	$403	$8,100	$230
$3,000	$400	$8,200	$227
$3,100	$397	$8,300	$223
$3,200	$393	$8,400	$220
$3,300	$390	$8,500	$217
$3,400	$387	$8,600	$213
$3,500	$383	$8,700	$210
$3,600	$380	$8,800	$207
$3,700	$377	$8,900	$203
$3,800	$373	$9,000	$200
$3,900	$370	$9,100	$197
$4,000	$367	$9,200	$193
$4,100	$363	$9,300	$190
$4,200	$360	$9,400	$187
$4,300	$357	$9,500	$183
$4,400	$353	$9,600	$180
$4,500	$350	$9,700	$177
$4,600	$347	$9,800	$173
$4,700	$343	$9,900	$170
$4,800	$340	$10,000	$167
$4,900	$337	$10,100	$163
$5,000	$333	$10,200	$160
$5,100	$330	$10,300	$157

Figure 6.2 (continued)

PHASEOUT OF CONTRIBUTIONS TO EDUCATION IRA - OTHER THAN JOINT RETURN

MAGI in Excess of Applicable Dollar Amount	Maximum Contribution	MAGI in Excess of Applicable Dollar Amount	Maximum Contribution
$10,400	$153	$12,800	$73
$10,500	$150	$12,900	$70
$10,600	$147	$13,000	$67
$10,700	$143	$13,100	$63
$10,800	$140	$13,200	$60
$10,900	$137	$13,300	$57
$11,000	$133	$13,400	$53
$11,100	$130	$13,500	$50
$11,200	$127	$13,600	$47
$11,300	$123	$13,700	$43
$11,400	$120	$13,800	$40
$11,500	$117	$13,900	$37
$11,600	$113	$14,000	$33
$11,700	$110	$14,100	$30
$11,800	$107	$14,200	$27
$11,900	$103	$14,300	$23
$12,000	$100	$14,400	$20
$12,100	$97	$14,500	$17
$12,200	$93	$14,600	$13
$12,300	$90	$14,700	$10
$12,400	$87	$14,800	$7
$12,500	$83	$14,900	$3
$12,600	$80	$15,000	$0
$12,700	$77		

More technically, an excess contribution for any taxable year equals the sum of (1) the excess of all contributions to all Education IRAs for the benefit of the beneficiary over $500 (or lesser phased out permissible contribution); (2) all contributions to all Education IRAs for the benefit of the beneficiary if a contribution is made to a qualified state tuition program for the benefit of the Education IRA beneficiary; and (3) amounts determined under this calculation for the preceding taxable year reduced by the sum of (a) distributions out of the Education IRAs for the current year, and (b) the excess of the maximum amount which can be contributed to the Education IRAs for the current year over the amount contributed to Education IRAs for the current year. Thus, an excess contribution carried over from a previous year can be used up as a contribution in a subsequent year.

It appears that a technical correction is necessary to prevent the same contribution being counted twice under (1) and (2). For example, if Joe contributes $600 to an Education IRA for Mary in a year when contribu-

tions are made to a qualified state tuition program for Mary, the formula above would produce an excess contribution of $700 [$100 (excess of $600 over $500) plus $600 (entire contribution because of contribution to qualified state tuition program)]. However, the excess contribution should not exceed the amount actually contributed, $600.

Example. Greg contributed $600 to an Education IRA for Sue in 1999, resulting in an excess contribution of $100 ($600 - $500). Barbara contributed $550 to the IRA in 2000, resulting in an excess contribution of $150 [($550 - $500) plus the $100 carryover from 1999]. In 2001, no one contributes to the IRA. The $150 carryover from 2000 is treated as contributed in 2001 and is less than $500; there is no excess contribution.

A contribution to an Education IRA for a beneficiary other than the contributor is treated as a completed gift of other than a future interest for gift tax and generation-skipping transfer tax purposes. It therefore can qualify for the gift tax and generation-skipping transfer tax annual exclusion ($10,000 in 2000; $20,000 through gift-splitting with a spouse). It is not treated as a qualified transfer for education purposes under Code section 2503(e). If the aggregate amount of contributions to the beneficiary exceeds the annual exclusion for the year, the donor can elect to have such excess treated as made over the five-year period beginning with such year.[11]

Since the maximum contribution to an Education IRA is $500 and the annual exclusion is at least $10,000, the five-year spread would appear to be of no significance unless the donor makes substantial other gifts to the donee during the year and such gifts are taken into account before the contribution to the Education IRA. Furthermore, although the contributions can be spread over five years for gift tax purposes, the five-year spread does not apply for income tax purposes.

If the donor dies during the five-year period, any gift allocated under the five-year rule to a year after the death of the donor is included in the donor's estate.[12]

ACCUMULATIONS/INVESTMENTS

Amounts earned within an Education IRA generally accumulate on a tax-deferred basis.[13] Also, as described below, earnings from an Educa-

tion IRA are generally not taxable when distributed and used to pay qualified education expenses. However, an Education IRA is taxed if it has unrelated business taxable income.[14] Furthermore, part or all of the Education IRA may be deemed distributed if the IRA owner engages in a prohibited transaction or pledges the account as security for a loan.[15] An Education IRA, as with all IRA accounts, cannot invest in life insurance contracts.[16]

DISTRIBUTIONS

Distributions of amounts from an Education IRA used to pay qualified higher education expenses (see above) are not taxable when distributed from the Education IRA. Amounts distributed from an Education IRA are includable in taxable income (on a prorated basis) to the extent distributions are other than for qualified higher education expenses and are from earnings of the Education IRA. Amounts distributed from an Education IRA that are includable in income are also subject to a penalty tax unless certain exceptions are met. In general, an Education IRA must be distributed at the earlier of the beneficiary attaining age 30 or the death of the beneficiary. Certain changes of beneficiary are not treated as distributions and may be used for various planning purposes. A rollover (see heading below) from an Education IRA is generally not treated as a distribution from an Education IRA.

Part or all of the Education IRA may be deemed distributed if the IRA owner engages in a prohibited transaction or pledges the account as security for a loan.[17]

Amounts distributed from an Education IRA generally represent one of two categories: contributions to the IRA, and earnings on contributions within the IRA. Earnings on contributions within the IRA generally accumulate tax-free (see above); therefore earnings on contributions represent property that has not been subjected to income tax. However, nondeductible contributions to the IRA are contributed on an after-tax basis.

As a result, nondeductible contributions to an Education IRA can be recovered tax-free from the IRA (similar to investment in the contract or basis). However, earnings on contributions within an Education IRA are includable in income upon distribution from an Education IRA unless the distribution is for qualified higher education expenses.[18]

If distributions from Education IRAs for the year do not exceed qualified higher education expenses for the year, distributions are excludable from gross income. However, it is necessary to calculate the part of a distribution from an Education IRA that can be excluded from income when the distribution is, at least in part, not for qualified higher education expenses. This is done by first allocating the distribution between contributions (i.e., investment in the contract or the nontaxable part) and earnings. The portion of the distribution attributable to earnings is then allocated between distributions for qualified higher education expenses and all other distributions from the Education IRA. The portion of the distribution attributable to earnings allocated to other than qualified higher education expenses is includable in income.[19]

More specifically, in order to calculate the part of a distribution from an Education IRA that can be excluded from income, first the annuity exclusion ratio rules are applied. For this purpose, the formula is:

$$\frac{\text{Unrecovered Nondeductible Contributions}}{\text{Total Account Balance + Distribution Amount}} \times \text{Distribution Amount}$$

Applying the exclusion rules as they have applied to traditional IRAS, all Education IRAs are treated as one in determining each of the above amounts. Unrecovered nondeductible contributions are determined as of the beginning of the year (i.e., before changes to the IRA account for the current year). The total account balance is determined as of the end of the year (i.e., increased by contributions to Education IRAs, but reduced by distributions from Education IRAs). The distribution amount is the total of such transactions occurring during the current year.[20]

The portion of the distributions attributable to earnings equals the distributions reduced by the amount excludable as attributable to contributions. The portion of the distributions attributable to earnings that is excludable as allocated to qualified higher education expenses is then calculated. The formula is:

$$\frac{\text{Qualified Higher Education Expenses}}{\text{Aggregate Distributions}} \times \text{Distributions Attributable To Earnings}$$

The portion of the distributions includable in income equals the distribution attributable to earnings reduced by the amount of the distributions attributable to earnings that are excludable as attributable to qualified higher education expenses.

Example. Mary contributes $500 to an Education IRA for John in each year from 1998 to 2002 (total contributions of $2,500). No other contributions are made to an Education IRA for John. In 2003, John has qualified higher education expenses of $1,000 and withdraws $1,200 from the Education IRA. The total account balance for the Education IRA at the end of 2003 equals $1,800. The amount of the distribution includable in John's income equals $33, calculated as follow:

(1) $\dfrac{\text{Unrecovered Nondeductible Contributions}}{\text{Total Account Balance + Distribution Amount +}} \times \text{DistributionAmount} = \text{amount of distribution allocable to contributions}$

$$\frac{\$2,500}{\$1,800 + \$1,200} \times \$1,200 = \$1,000$$

(2) $1,200 - $1,000 = $200 of distribution attributable to earnings

(3) $\dfrac{\text{Qualified Higher Education Expenses}}{\text{Aggregate Distributions}} \times \text{Distribution Attributable To Earnings} = \text{amount of earnings attributable to qualified higher education expenses}$

$$\frac{\$1,000}{\$1,200} \times \$200 = \$167$$

(4) $200 - $167 = $33 of earnings attributable to non-qualified higher education expenses

Premature Distributions

In general, distributions from an Education IRA are subject to an additional 10 percent penalty tax to the extent that the distribution is includable in income unless an exception applies.[21] This additional 10 percent penalty tax is similar in concept to the premature distribution penalty tax applicable to other individual retirement plans (see Chapter 13) but the exceptions vary.

The 10 percent additional penalty tax does not apply to distributions from an Education IRA which are:

(1) made after the death of the designated beneficiary;

(2) attributable to disability of the designated beneficiary; or

(3) made on account of a scholarship, education assistance allowance or other payment excludable from income (to the extent of such scholarship, allowance or other payment).

Also, a return of a contribution made during the year is not treated as a distribution from the Education IRA and is not subject to the premature distribution penalty as long as any earnings are also distributed. This provision can be used to correct an excess contribution. However, the earnings from the contribution are includable in income for the year in which the excess contribution was made and appear to be subject to the 10 percent additional penalty tax.[22]

Required Distributions

Any remaining account balance in an Education IRA must generally be distributed when the beneficiary reaches age 30 or dies. The regular required minimum distribution rules (see Chapter 13) do not apply to an Education IRA.

Generally, any balance that the designated beneficiary has in any Education IRAs must be distributed within 30 days of the earlier of the beneficiary's 30th birthday or the beneficiary's death.[23] Any amount required to be distributed under this rule, is deemed distributed at the close of the 30-day period.[24]

Any balance that the designated beneficiary has in any Education IRAs at the beneficiary's death is included in the beneficiary's estate for federal estate tax purposes.[25] If the Education IRA passes to the spouse of the deceased beneficiary, the Education IRA should generally qualify for the estate tax marital deduction. In any event, the estate of any beneficiary for which an Education IRA is created will usually be small enough to be protected from estate tax by the unified credit.

In order to avoid forced distributions under this rule, changes in beneficiary can generally be made before the beneficiary's 30th birthday or the beneficiary's death. In order to avoid income tax treatment as a

distribution (see above), the change in beneficiary or rollover to an Education IRA (see below) for the new beneficiary must be to a member of the family of the former beneficiary and the new beneficiary must not have attained age 30 at the time of the change of beneficiary or rollover.[26]

The federal gift tax or federal generation-skipping transfer tax applies to such a change in beneficiary or rollover to a new beneficiary only if the new beneficiary is a generation below the generation of the old beneficiary.[27]

ROLLOVERS

An Education IRA can be rolled over to another Education IRA for the benefit of the same or another beneficiary. Apparently, no other rollover to or from an Education IRA is permitted.

The rollover will not be treated as a distribution from the Education IRA if the rollover is to an Education IRA for the benefit of the same beneficiary or a member of the family of the former beneficiary and the new beneficiary has not attained age 30 at the time of the rollover. The rollover to the second Education IRA must be completed within 60 days of the distribution from the first Education IRA. Only one rollover from an Education IRA to an Education IRA is permitted within a 12-month period.[28]

A rollover or a permitted change of beneficiary (see below) may be used to change beneficiaries and thus avoid forced distributions when the beneficiary reaches age 30 or dies.

CHANGE OF BENEFICIARY

A change in beneficiary or rollover to an Education IRA (see above) for a new beneficiary who is a member of the family of the former beneficiary where the new beneficiary has not attained age 30 at the time of the change of beneficiary or rollover is not treated as a distribution (see above) for income tax purposes.[29] This rule may be useful to avoid forced distributions when the beneficiary reaches age 30 or dies.

The federal gift tax or federal generation-skipping transfer tax applies to such a change in beneficiary or rollover to a new beneficiary only if the new beneficiary is a generation below the generation of the old beneficiary.[30]

Also, a transfer of an Education IRA pursuant to a decree of divorce or separate maintenance or a written instrument incident to such a decree to the spouse of the IRA beneficiary is not treated as a taxable transfer and the spouse is thereafter treated as the IRA beneficiary.[31] Furthermore, if a member of the family of the Education IRA beneficiary is named as the designated beneficiary upon the death of the IRA beneficiary, the new beneficiary is thereafter treated as the Education IRA owner.[32] Presumably, the spouse or other family member would need to be under age 30 for these provisions to apply to an Education IRA.

LOSSES (UNRECOVERED BASIS)

The Code provides that if annuity payments from an IRA end upon the death of the annuitant and there is still unrecovered investment in the contract, the unrecovered investment in the contract is allowable as a deduction for the annuitant's final tax year. However, if refund payments are made to a beneficiary or the annuitant's estate after the annuitant's death, the deduction for unrecovered investment in the contract is taken by the person receiving the refund payments for the year in which received. The IRS provides additionally that when all amounts from all IRAs have been distributed and the amounts distributed are less than the unrecovered basis, a loss may be recognized.[33]

Example. Mary contributes $500 to an Education IRA for Jan in each year from 1998 to 2001 (total contributions of $2,000). No other contributions are made to an Education IRA for Jan. In 2003, Jan has qualified higher education expenses of $900 and withdraws $1,100 from the Education IRA. The total account balance for the Education IRA at the end of 2003 equals $1,700. The amount of the distribution includable in Jan's income equals $57, calculated as follow:

(1) $\dfrac{\text{Unrecovered Nondeductible Contributions}}{\text{Total Account Balance + Distribution Amount}} \times \text{Distribution Amount} = \text{amount of distribution allocable to contributions}$

$$\frac{\$2,000}{\$1,700 + \$1,100} \times \$1,100 = \$786$$

(2) $1,100 - $786 = $314 of distribution attributable to earnings

(3) $\frac{\text{Qualified Higher Education Expenses}}{\text{Aggregate Distributions}}$ x Distribution Attributable To Earnings = amount of earnings attributable to qualified higher education expenses

$\frac{\$900}{\$1,100}$ x $314 = $257

(4) $314 - $257 = $57 of earnings attributable to non-qualified higher education expenses

Assume the IRA account balance drops in value to $1,200 the next year (i.e., a loss in value of $500). Unrecovered investment in the contract equals $1,214 ($2,000 total contributions - $786 distributions allocated to contributions). Jan withdraws the entire $1,200. No amount is includable in income. Furthermore, Jan may claim a loss of $14 ($1,214 unrecovered investment in the contact - $1,200 distribution).

WITHHOLDING

Distributions from an Education IRA do not seem to be subject to withholding.[34]

TRANSFER TAXES

A contribution to an Education IRA for a beneficiary other than the contributor is treated as a completed gift of other than a future interest for gift tax and generation-skipping transfer tax purposes. It therefore can qualify for the gift tax and generation-skipping transfer tax annual exclusion ($10,000 in 2000; $20,000 through gift-splitting with a spouse). It is not treated as a qualified transfer for education purposes under Code section 2503(e). If the aggregate amount of contributions to the beneficiary exceeds the annual exclusion for the year, the donor can elect to have such excess treated as made over the five-year period beginning with such year.[35]

Since the maximum contribution to an Education IRA is $500 and the annual exclusion is at least $10,000, the five-year spread would appear to be of no significance unless the donor makes substantial other gifts to the donee during the year and such gifts are taken into account before the contribution to the Education IRA.

If the donor dies during the five-year period, any gift allocated under the five-year rule to a year after the death of the donor is included in the donor's estate.[36]

The federal gift tax or federal generation-skipping transfer tax applies to a permissible change in beneficiary or rollover to a new beneficiary only if the new beneficiary is a generation below the generation of the old beneficiary.[37]

CHAPTER ENDNOTES

1. IRC Sec. 530(b)(1).
2. IRC Secs. 530(b)(2), 529(e)(3).
3. IRC Sec. 530(b)(1)(A)(i).
4. IRC Sec. 530(b)(1)(A)(iii).
5. See IRC Secs. 219(f)(3), 408A(c)(7).
6. IRC Sec. 503(b)(1)(A)(ii).
7. IRC Sec. 4973(e).
8. IRC Sec. 530(b)(1)(A)(iii).
9. IRC Sec. 530(c).
10. IRC Secs. 4973(a), 4973(e).
11. IRC Secs. 530(d)(3), 529(c)(2).
12. IRC Secs. 530(d)(3), 529(c)(4)(C).
13. IRC Sec. 530(a).
14. Ibid.
15. IRC Secs. 530(e), 408(e)(2), 408(e)(4).
16. IRC Sec. 530(b)(1)(C).
17. IRC Secs. 530(e), 408(e)(2), 408(e)(4).
18. IRC Sec. 530(d).
19. IRC Secs. 530(d)(1), 72.
20. See Notice 87-16(III), 1987-1 CB 446.
21. IRC Sec. 530(d)(4).
22. IRC Sec. 530(d)(4)(C).
23. IRC Sec. 530(b)(1)(E).
24. IRC Sec. 530(d)(8).
25. IRC Secs. 530(d)(3), 529(c)(4).
26. IRC Secs. 530(d)(5), 530(d)(6).
27. IRC Secs. 530(d)(3), 529(c)(5).
28. IRC Sec. 530(d)(5).
29. IRC Secs. 530(d)(5), 530(d)(6).
30. IRC Secs. 530(d)(3), 529(c)(5).
31. IRC Secs. 530(d)(7), 220(f)(7).
32. IRC Secs. 530(d)(7), 220(f)(8).
33. IRC Sec. 72(b)(3); Notice 89-25(A-7), 1989-1 CB 662 clarifying Notice 87-16(D-5), 1987-1 CB 446.
34. See IRC Sec. 3405.
35. IRC Secs. 530(d)(3), 529(c)(2).
36. IRC Secs. 530(d)(3), 529(c)(4)(C).
37. IRC Secs. 530(d)(3), 529(c)(5).

Chapter 7

SIMPLIFIED EMPLOYEE PENSION IRAS (SEP IRAS)

A simplified employee pension IRA (SEP IRA) is a way for an employer to offer an employee plan in the form of an IRA, but with higher contribution levels than for traditional and Roth IRAs, and without many of the restrictions applicable to qualified plans. An employer is not limited in the number of employees it may have in order to qualify for a SEP IRA. Employers with no more than 25 employees and who had salary reduction SEP IRAs (SAR-SEP IRAs) in effect prior to 1997 can offer employees an election to make current salary reduction contributions to such SAR-SEP IRAs. An employer with no more than 100 employees may prefer the alternative of a SIMPLE IRA (see Chapter 8), a recent creation that allows for higher contribution levels and salary reduction contributions while relaxing the rules for qualified plans.

An employer can take a deduction for contributions to a SEP IRA but not to exceed an amount equal to 15 percent of compensation paid to employees. The amount of the contribution must be determined under a definite written allocation formula which cannot discriminate in favor of the highly compensated. The employee, within limitations, excludes the contribution from income.

In the case of salary reduction contributions, the employer also takes a deduction and the employee excludes the contribution from income.

Amounts contributed to a SEP IRA can be invested in a wide variety of investments. Such amounts grow within the IRA account on a tax-deferred basis; there is generally no taxation until amounts are distributed.

Amounts distributed from a SEP IRA are generally taxable on a pro-rated basis. Amounts distributed from a SEP IRA allocated to nondeductible contributions to the SEP IRA can be excluded from income. Usually, all contributions to the SEP IRA are excluded from income when contributed and the full amount distributed from a SEP IRA is includable in income.

Distributions received before the individual reaches age 59½ are generally subject to a premature distribution penalty tax to the extent the distribution is includable in income unless an exception applies. Once the individual reaches age 70½, required minimum distributions must be made from the SEP IRA or a penalty tax applies.

CONTRIBUTIONS

Both employer and employee contributions may be made to a SEP IRA. Employer contributions to a SEP IRA are subject to their own set of rules including participation and nondiscrimination requirements. Employee contributions to a SEP IRA are essentially subject to the same rules as those for contributions to a traditional IRA. Additional rules apply to salary reduction contributions to a SAR-SEP IRA.

Employer Contributions

An employer can generally take a deduction for contributions made by the employer to a SEP IRA. The employee can generally exclude such employer contributions from income. Certain limitations apply and excess contributions are generally subject to a penalty tax. Salary reduction contributions to a SAR-SEP IRA are discussed under a separate heading below.

An employer can take a deduction for contributions made to a SEP IRA during a year by the employer but not to exceed an amount equal to 15 percent of the employees' compensation. The employer can use a calendar year or the employer's tax year as the SEP IRA's taxable year. Contributions for any year can be made up until the time for filing the return (including extensions) for the SEP IRA's taxable year. To the extent that contributions in any year exceed 15 percent of the employees' compensation, such excess may be carried forward and deducted in a later year, subject to the 15 percent limitation in such carryover year.[1] (The employer is also subject to a 10 percent penalty on such nondeductible contributions, see below).

To the extent that a deduction is taken for a SEP IRA, the deductible limitations for stock bonus and profit sharing plans (generally 15 percent) are reduced. For purposes of the rules limiting deductible contributions where an employer contributes to a combination of defined contribution

plans and defined benefit plans, a SEP IRA is treated as a separate stock bonus or profit sharing plan.

In any year that the employer maintains a SEP IRA, the employer must contribute to the SEP IRA of any employee who (1) has attained age 21, (2) has performed service for the employer in at least three of the preceding five years, and (3) has compensation of at least $450 (as indexed for 2000). For this purpose, if the employee is eligible for salary reduction contributions (see heading below) to the SEP IRA for the year, the employer is considered to have contributed to the SEP IRA for the employee. Employees covered by a collective bargaining agreement where retirement benefits were the subject of good faith bargaining can be excluded for purposes of the required employer contributions to the SEP IRA. Also, nonresident aliens with no U.S. source earned income from the employer can be excluded.[2]

Contributions to the SEP IRA by the employer may not discriminate in favor of any highly compensated employee. Contributions to the SEP IRA by the employer will generally be considered discriminatory unless contributions bear a uniform relationship to compensation (not to exceed $170,000 as indexed for 2000) of each employee maintaining a SEP IRA. Apparently, a contribution rate that decreases as compensation increases would also be permitted as nondiscriminatory. Certain disparity is permitted in plans that are integrated with Social Security.[3]

Employer contributions to a SEP IRA may not be conditioned on the employee retaining such contributions in the SEP IRA. Nor can the employer prohibit withdrawal of such contributions from the SEP IRA.[4]

Employer contributions to a SEP IRA must be determined under a definite written allocation formula that specifies how an employee qualifies for employer contributions and how the amount of employer contributions is calculated.[5]

Employer contributions to a SEP IRA, as well as annual additions to other defined contribution plans of the employer maintained for the employee, are subject to a combined overall limitation equal to the lesser of 25 percent of compensation or $30,000.[6] There was also a combined limit placed on the annual additions which could be made to all defined contribution plans (including employer contributions to a SEP IRA) and

defined benefit plans maintained by the employer for the employee for years generally beginning prior to 2000.[7]

In the case where an employer contributes more than it can deduct in a taxable year (i.e., a nondeductible contribution), a 10 percent penalty tax is imposed on the employer.[8] In general, a nondeductible contribution is any portion of a contribution to a SEP IRA by the employer in excess of the amount allowable as a deduction by the employer. However, it is necessary to keep a running account of such nondeductible contributions (i.e., it is necessary to keep track of contributions and distributions for the current year and preceding years in order to determine if there is a nondeductible contribution for the current year).

More technically, a nondeductible contribution for any taxable year equals the sum of (1) the excess of employer contributions to SEP IRAs and other retirement plans over the amounts allowable as a deduction for such contributions, and (2) amounts determined under this calculation for the preceding taxable year reduced by the sum of (a) such amounts returned to the employer during the current year, and (b) such amounts deductible for the current year. For this purpose, excess contributions from previous years are carried over and the amount allowable as a deduction in any year is treated as first consisting of carryovers from prior years (and from oldest carryovers first) and then from contributions made during the current year. Thus, a nondeductible contribution carried over from a previous year can be used up as a contribution in a subsequent year.[9]

Example. Ann, who is not a highly compensated employee, has compensation of $50,000 in 1998, 1999, and 2000 from Company. The only retirement plan maintained by Company is a SEP IRA. Company contributed $8,000 to the SEP IRA for Ann in 1998, resulting in a nondeductible contribution of $500 [$8,000 - (15% x $50,000)]. Company contributed $9,000 to the SEP IRA in 1999, resulting in a nondeductible contribution of $1,500 {[$9,000 - (15% x $50,000)] plus the $500 carryover from 1998}. In 2000, Company does not contribute to the SEP IRA. The $1,500 carryover from 1999 is treated as contributed (and deductible) in 2000 and is less than $7,500 (15% x $50,000); thus, there is no nondeductible contribution for 2000.

The employee can exclude employer contributions to a SEP IRA from income to the extent that such contributions do not exceed the lesser of 15 percent of compensation (determined without regard to the employer's contribution to the SEP IRA) or $30,000 (as indexed for 2000). However, the $30,000 limitation is effectively reduced to $25,500 because only $170,000 (as indexed in 2000) of compensation can be taken into account and 15 percent of $170,000 equals $25,500. The dollar limitation is reduced in the case of highly compensated employees in a SEP IRA that is integrated with Social Security.[10]

Employer contributions to a SEP IRA are generally not subject to FICA (Social Security tax), FUTA (federal unemployment tax), or income tax withholding.[11]

See the discussion of SIMPLE IRAs (Savings Incentive Match Plan for Employees IRA) in Chapter 8 for other IRAs specifically designed for employer/employee programs.

Employee Contributions

An employee may generally make deductible and nondeductible contributions to a SEP IRA similar to those made to a traditional IRA. Contributions may be subject to various limitations. A rollover (see heading below) to a SEP IRA is generally not treated as a contribution to a SEP IRA. Salary reduction contributions to a SAR-SEP IRA are discussed under a separate heading below.

Contributions to a SEP IRA, as for all IRAs, must be made in cash.[12] Contributions for a taxable year may be made up until the time for filing the tax return for the year (not including extensions of time for filing): generally, April 15.[13]

A deduction cannot be taken for contributions made to a SEP IRA by the employee in taxable years once the employee has attained age 70½.[14] Furthermore, a deduction generally cannot be taken for contributions to an IRA inherited from another individual.[15]

An employee may take a deduction from income in any taxable year for contributions the employee makes to a SEP IRA for up to the lesser of $2,000 or compensation includable in income.[16] However, if the employee

is an active participant in certain employer retirement plans, including a SEP IRA, the $2,000 amount is subject to phaseout based upon adjusted gross income.[17] An employee is an active participant in a SEP-IRA if any employer contribution is made during the taxable year.[18]

In the case of an active participant, the $2,000 amount is reduced by an amount equal to $2,000 multiplied by the ratio of the employee's adjusted gross income (AGI) in excess of an applicable dollar amount to $10,000 ($20,000 in the case of a joint return after 2006).

$$\$2{,}000 \times \frac{\text{AGI - applicable dollar amount}}{\$10{,}000} = \text{reduction}$$

Whenever the phaseout reduction is other than a multiple of $10, the reduction is rounded to the next lowest multiple of $10. However, where the $2,000 amount adjusted for phaseout based upon adjusted gross income is between $0 and $200, $200 is the amount allowable as a deduction.

In the case of a joint return, the applicable dollar amount equals:

Taxable Year	Applicable Dollar Amount	Total Phaseout
1999	$51,000	$61,000
2000	$52,000	$62,000
2001	$53,000	$63,000
2002	$54,000	$64,000
2003	$60,000	$70,000
2004	$65,000	$75,000
2005	$70,000	$80,000
2006	$75,000	$85,000
2007-	$80,000	$100,000

Thus, in the case of a joint return, the $2,000 amount is not reduced for adjusted gross income of up to $52,000 (in 2000, $53,000 in 2001), is reduced to $0 for adjusted gross income of $62,000 (in 2000, $63,000 in 2001) or more, and is proportionately reduced in the case of adjusted gross income between $52,000 (in 2000, $53,000 in 2001) and $62,000 (in 2000, $63,000 in 2001).

In the case of other than a joint return or a married filing separate return, the applicable dollar amount equals:

Taxable Year	Applicable Dollar Amount	Total Phaseout
1999	$31,000	$41,000
2000	$32,000	$42,000
2001	$33,000	$43,000
2002	$34,000	$44,000
2003	$40,000	$50,000
2004	$45,000	$55,000
2005-	$50,000	$60,000

Thus, in the case of a single return or a head of household return, the $2,000 amount is not reduced for adjusted gross income of up to $32,000 (in 2000, $33,000 in 2001), is reduced to $0 for adjusted gross income of $42,000 (in 2000, $43,000 in 2001) or more, and is proportionately reduced in the case of adjusted gross income between $32,000 (in 2000, $33,000 in 2001) and $42,000 (in 2000, $43,000 in 2001).

In the case of a married individual filing separate, the applicable dollar amount equals $0. Thus, in such case, the $2,000 amount is reduced to $0 for adjusted gross income of $10,000 or more, and is proportionately reduced in the case of adjusted gross income between $0 and $10,000.

Example. In 2000, a married individual filing separate employee in a SEP IRA who has adjusted gross income of $3,333, can make a deductible contribution to the SEP IRA of $1,340. This is calculated as follows:

$$\$2{,}000 \times \frac{\text{AGI - applicable dollar amount}}{\$10{,}000} = \text{reduction}$$

round reduction down to next lowest multiple of $10

$2,000 - reduction = amount deductible

$$\$2{,}000 \times \frac{\$3{,}333 - \$0}{\$10{,}000} = \$667$$

round $667 to $660

$2,000 - $660 = $1,340

The deduction for a contribution to a SEP IRA by the employee is a deduction from gross income.[19] Therefore, the deduction can be taken

whether or not the employee itemizes deductions and is not subject to any phaseout of itemized deductions.

An employee can elect to have otherwise deductible contributions to a SEP IRA by the employee treated as nondeductible.[20] However, as noted below, it is usually better to make nondeductible contributions to a Roth IRA rather than to a SEP IRA. (For a discussion of whether it is better for an employee to make *deductible* contributions to a SEP IRA or a traditional IRA or nondeductible contributions to a Roth IRA, see Chapter 9.)

An employee can also make nondeductible contributions to a SEP IRA up to the lesser of $2,000 or compensation includable in income. This amount is reduced by any deductible contributions made to a SEP IRA or traditional IRA.[21] However, nondeductible contributions to a SEP IRA or a traditional IRA are not subject to any phaseout based upon adjusted gross income even though the employee is an active participant.

Nondeductible contributions can also be made to a Roth IRA (see Chapter 5). However, contributions which can be made to a Roth IRA are subject to phaseout based upon income and are reduced by contributions made to a SEP IRA or a traditional IRA. Because distributions from a Roth IRA are generally subject to much more favorable rules than are distributions from a SEP IRA or traditional IRA, it is generally advisable to make nondeductible contributions to a Roth IRA rather than nondeductible contributions to a SEP IRA or traditional IRA, except to the extent that the individual's permissible contributions to a Roth IRA are phased out by the limitations based on income.

Employee contributions to a SEP IRA and contributions to traditional IRAs and Roth IRAs are subject to a combined overall limitation of $2,000.[22]

In the case of an excess contribution to a SEP IRA by the employee, there is imposed a six percent penalty tax.[23] In general, an excess contribution is any portion of a contribution to a SEP IRA by the employee in excess of the limitations on contributions by the employee described above. However, it is necessary to keep a running account of excess contributions (i.e., it is necessary to keep track of contributions and distributions for the current year and preceding years in order to determine if there is an excess contribution for the current year).

More technically, an excess contribution for any taxable year equals the sum of (1) the excess of employee contributions to SEP IRAs and contributions to traditional IRAs over the lesser of $2,000 or the employee's compensation, and (2) amounts determined under this calculation for the preceding taxable year reduced by the sum of (a) distributions from SEP IRAs and traditional IRAs of amounts includable in income for the year, (b) distributions from SEP IRAs (of employee contributions) and traditional IRAs of amounts not includable in income under Code section 408(d)(5) (i.e., distributions of amounts contributed that did not exceed $2,000 but did exceed the amount of compensation), and (c) the excess of the lesser of $2,000 or the employee's compensation over the amount of employee contributions to SEP IRAs and contributions to traditional and Roth IRAs for the year. Thus, an excess contribution carried over from a previous year can be used up as a contribution in a subsequent year.[24]

Example. Ann contributed $2,500 to a SEP IRA in 1997, resulting in an excess contribution of $500 ($2,500 - $2,000). Ann contributed $2,100 to the IRA in 1998, resulting in an excess contribution of $600 ([$2,100 - $2,000] plus the $500 carryover from 1997). In 1999, Ann does not contribute to the IRA. The $600 carryover from 1998 is treated as contributed (and deductible) in 1999 and is less than $2,000; there is no excess contribution.

Salary Reduction Contributions: SAR-SEP IRAs

An employer can also make salary reduction contributions to an existing salary reduction SEP IRA (a SAR-SEP IRA) for an employee.[25] The employer takes a deduction for the salary reduction contributions. The employee excludes the salary reduction contribution from income. Certain limitations apply.

In years after 1996, salary reduction contributions to a SAR-SEP IRA can be made only by employers that had SAR-SEP IRAs that permitted salary reduction contributions as of December 31, 1996 (an existing SAR-SEP IRA). Existing SAR-SEP IRAs are grandfathered on an employer basis; an employer with existing SAR-SEP IRAs can add new employees to the plan. Salary reduction contributions can be made to SIMPLE IRAs (see Chapter 8). State and local governments and tax-exempt entities cannot have SAR-SEP IRAs.

Other than with regard to the special salary reduction provisions for contributions, a SAR-SEP IRA is generally treated like any other SEP IRA.

A SAR-SEP IRA permits an employee to elect to have the employer either (1) make elective employer contributions to the SAR-SEP IRA on behalf of the employee or (2) distribute the amount in cash to the employee.[26] If the employee takes cash, the distribution is includable in the employee's income. If the employee chooses salary reduction, the employee excludes the amount of the salary reduction contribution from income for the year of contribution. If the employee chooses salary reduction, taxation is generally deferred until distributions are made from the SAR-SEP IRA. Thus, salary reduction is a form of elective deferral or a cash or deferred arrangement.

The salary reduction provisions are not available in any year to a SAR-SEP IRA if the employer had more than 25 employees who were eligible to participate for the previous year. Also, the salary reduction provisions are not available in any year to a SAR-SEP IRA unless at least 50 percent of eligible employees elect the salary reduction option. Furthermore, the salary reduction provisions are not available in any year unless the deferral percentage of each highly compensated employee is not more than the average deferral percentages of all employees (other than highly compensated employees) multiplied by 1.25. The deferral percentage for a year is equal to the ratio of the actual amount of elective employer contributions paid to the SAR-SEP IRA for the employee to the employee's compensation (not to exceed $170,000 as indexed for 2000).

Example. The average deferral percentages of all employees (other than highly compensated employees) covered under a SAR-SEP offered by employer equals six percent. If the deferral percentage of any highly compensated employee exceeds 7.5 percent (6% x 1.25), such employee's SAR-SEP does not qualify for salary reduction.

Salary reduction contributions to a SAR-SEP IRA, as well as all other elective deferrals to retirement plans, are subject to a combined overall limitation of $10,500 (as indexed for 2000) for elective deferrals in a year.

In the case of an excess contribution through salary reduction to a SAR-SEP IRA, there is imposed a 10 percent penalty tax on the em-

ployer.[27] In general, an excess contribution is any portion of a salary reduction contribution to a SAR-SEP IRA in excess of the "1.25" limitation described above. Distributions of excess contributions made within 2½ months after the end of the year can be treated as made during the preceding year. However, if the total amount of excess contributions (and any interest thereon) distributed in any year to an employee is less than $100, such excess contributions are treated as distributed in the year actually distributed.[28]

Salary reduction contributions to a SAR-SEP IRA are generally subject to FICA (Social Security tax) and FUTA (federal unemployment tax) tax withholding, but not to income tax withholding.[29]

See the discussion of SIMPLE IRAs (Savings Incentive Match Plan for Employees IRA) in Chapter 8 for other IRAs specifically designed for employer/employee programs.

ACCUMULATIONS/INVESTMENTS

Amounts earned within a SEP IRA generally accumulate on a tax-deferred basis. Earnings are generally not taxable until distributed from the SEP IRA. However, a SEP IRA is taxed if it has unrelated business taxable income. Furthermore, part or all of the SEP IRA may be deemed distributed if the SEP IRA owner engages in a prohibited transaction, borrows on an annuity contract, pledges the account as security for a loan, purchases an endowment contract, or invests in certain collectibles.[30] A SEP IRA account, as with all IRA accounts, cannot invest in life insurance contracts.[31] The IRA can be in the form of an individual retirement annuity.[32]

An individual retirement annuity is an annuity contract or endowment contract issued by an insurance company meeting certain requirements: (1) the contract cannot be transferable by the owner; (2) the premiums may not be fixed; (3) the annual premium cannot exceed $2,000; (4) any refund of premiums must be applied before the end of the next year to pay future premiums or to purchase additional benefits; (5) the required minimum distribution and minimum distribution incidental death benefit rules apply; and (6) the entire interest of the owner must be nonforfeitable. For this purpose, an endowment contract cannot mature later than the taxable year in which the SEP IRA owner reaches age 70½

and must be for the exclusive benefit of the SEP IRA owner or beneficiary. Aggregate annual premiums for all endowment contracts purchased for the SEP IRA owner cannot exceed $2,000.

See Chapter 3 for more information on limitations on accumulations in a SEP IRA.

DISTRIBUTIONS

Amounts distributed from a SEP IRA are includable in taxable income (on a prorated basis) to the extent distributions are from employer contributions (including salary reduction contributions), employee deductible contributions to the SEP IRA, and earnings from the SEP IRA. Amounts distributed before the SEP IRA owner reaches age 59½ that are includable in income are subject to a premature distribution penalty tax unless certain exceptions are met. Required minimum distributions must begin when the SEP IRA owner reaches age 70½ or a penalty tax applies. A rollover (see heading below) from a SEP IRA is generally not treated as a distribution from a SEP IRA.

Part or all of the SEP IRA may be deemed distributed if the SEP IRA owner engages in a prohibited transaction, borrows on an annuity contract, pledges the account as security for a loan, purchases an endowment contract, or invests in certain collectibles.[33]

Amounts distributed from a SEP IRA represent one of four categories: (1) employer contributions to the IRA (including salary reduction contributions), (2) deductible contributions to the IRA, (3) nondeductible contributions to the IRA, and (4) earnings on contributions within the IRA. Employer contributions to a SEP IRA are excludable from the employee's income when made; therefore, employer contributions represent property which has not been subjected to income tax. A deduction is taken when deductible contributions are made to the SEP IRA; therefore, deductible contributions represent property which has not been subjected to income tax. Earnings on contributions within the IRA generally accumulate tax-free (see above); therefore, earnings on contributions also represent property which has not been subjected to income tax. However, nondeductible contributions to the IRA are contributed on an after-tax basis.

As a result, nondeductible contributions to a SEP IRA can be recovered tax-free from the SEP IRA (similar to investment in the contract or basis). However, employer contributions and employee deductible contributions to a SEP IRA, as well as earnings on contributions within a SEP IRA, are includable in income upon distribution from a SEP IRA.

In order to calculate the part of a distribution from a SEP IRA that can be excluded from income, the annuity exclusion ratio rules are applied. Thus, gross income does not include the part of a distribution that bears the same ratio to such amount as the investment in the contract (i.e., nondeductible contributions) bears to expected return under the contract. For this purpose, all SEP IRAs are treated as one IRA, all distributions during the year are treated as one distribution, and the value of the contract, income on the contract, and investment in the contract is computed at the end of the calendar year in which the taxable year begins. The value of the contract is increased by any distribution during the calendar year.[34]

The value of the contract is also increased by any outstanding rollovers. An outstanding rollover is a distribution from the SEP IRA during the current year that is rolled over within 60 days of the distribution but during the following year.

Thus, the formula for calculating the portion of a distribution from a SEP IRA that is excludable from income as attributable to nondeductible contributions to the SEP IRA is:

$$\frac{\text{Unrecovered Nondeductible Contributions}}{\text{Total Account Balance} + \text{Distribution Amount} + \text{Outstanding Rollover}} \times \text{Distribution Amount}$$

All SEP IRAs are treated as one in determining each of the above amounts. The amount of unrecovered nondeductible contributions is determined as of the beginning of the year (i.e., before changes to the SEP IRA account for the current year). The total account balance is determined as of the end of the year (i.e., increased by contributions and rollovers to the SEP IRA, but reduced by distributions and rollovers from the SEP IRA). The distribution amount and outstanding rollover is the total of such transactions occurring during the current year.[35]

Example. Jill made $2,000 nondeductible contributions to a SEP IRA for 10 years. Unrecovered nondeductible contributions as of the beginning of 2000 equals $20,000. Other contributions have been made to the SEP IRA. Jill withdraws $1,000 from the IRA in 2000. At the end of 2000, the IRA account balance equals $79,000. The amount of the distribution excludable from income equals $250; $750 is includable. Unrecovered nondeductible contributions as of the beginning of 2001 would equal $19,750 ($20,000 - $250).

$$\frac{\text{Unrecovered Nondeductible Contributions}}{\text{Total Account Balance + Distribution Amount + Outstanding Rollover}} \times \text{Distribution Amount} = \text{Amount Excludable}$$

Distribution Amount - Amount Excludable = Amount Includable

$$\frac{\$20{,}000}{\$79{,}000 + \$1{,}000 + \$0} \times \$1{,}000 = \text{Amount Excludable}$$

$250 = Amount Excludable

$1,000 - $250 = Amount Includable

$750 = Amount Includable

Premature Distributions

In general, distributions from a SEP IRA received before age 59½ are subject to a 10 percent penalty tax on premature distributions. However, the penalty tax only applies to the extent that the distribution is includable in income and a number of exceptions to application of the penalty apply.[36]

A SAR-SEP IRA must prohibit a distribution from being made from the SAR-SEP IRA of any salary reduction contribution (or income thereon) before a determination has been made as to whether the deferral percentage requirement for such contributions has been met for the year.[37] Furthermore, where a distribution is made from a SAR-SEP IRA of any salary reduction contribution (or income thereon) before a determination has been made as to whether the deferral percentage requirement for such contributions has been met for the year, the premature distribution penalty tax applies to such distribution without exception.[38]

Otherwise, the premature distributions penalty tax does not apply to distributions from a SEP IRA that are:

(1) made after the death of the SEP IRA owner;

(2) attributable to the SEP IRA owner's disability;

(3) part of a series of substantially equal periodic payments (at least annually) made for the life (or life expectancy) or the joint life (or life expectancies) of the SEP IRA owner and a designated beneficiary (the penalty tax plus interest is due if the substantially equal periodic payments are modified before the later of five years after payments have begun or the SEP IRA owner reaches age 59½);

(4) made for medical care to the extent generally allowable as a medical expense deduction (generally, unreimbursed medical expenses in excess of 7.5 percent of adjusted gross income; for this purpose, itemization of deductions is not required);

(5) made to the SEP IRA owner who is unemployed for payment of health insurance premiums;

(6) made to the SEP IRA owner for payment of qualified higher education expenses furnished to the SEP IRA owner, the SEP IRA owner's spouse, or children or grandchildren of either; or

(7) made to the SEP IRA owner ($10,000 lifetime limit) for purchase of a first home by the SEP IRA owner, the SEP IRA owner's spouse, or children, grandchildren, or ancestor of either.

The IRS has approved three methods for calculating substantially equal periodic payments:

(1) payments which satisfy the required minimum distributions method (see heading below);

(2) amortization of payments over the life expectancy of the SEP IRA owner (Annuity Table V) or joint and survivor life

expectancy of the SEP IRA owner and beneficiary (Annuity Table VI) using a reasonable interest rate; and

(3) annuitization of payments for the life of the SEP IRA owner or the lives of the SEP IRA owner and beneficiary using a reasonable mortality table and interest rate.[39]

The first method requires recalculation of payments each year, while the second and third methods provide constant payments.

For additional discussion of the premature distribution penalty, including examples of the substantially equal periodic payment exceptions, see Chapter 13.

Required Minimum Distributions

When a SEP IRA owner reaches age 70½, the SEP IRA owner must begin taking required minimum distributions. In general, the required minimum distributions rules cause the SEP IRA owner to withdraw the entire SEP IRA account balance over the SEP IRA owner's life or the lives of the SEP IRA owner and a designated beneficiary. If there is more than one beneficiary other than the SEP IRA owner, the oldest other beneficiary's life expectancy is used for the designated beneficiary. Special rules apply where the spouse of the SEP IRA owner is the designated beneficiary. Failure to withdraw the required minimum distribution results in a 50 percent penalty tax on the amount by which the required minimum distribution exceeds the actual amount withdrawn.[40]

An additional rule, the minimum distribution incidental benefit (MDIB) rule, is designed to insure that the SEP IRA distributions are primarily for the benefit of the SEP IRA owner. The rule does this, while the SEP IRA owner is alive, by treating a beneficiary other than the spouse of the SEP IRA owner as no more than 10 years younger than the SEP IRA owner.[41]

In the case of a SEP IRA, required minimum distributions must begin by April 1 of the year following the year the SEP IRA owner reaches age 70½. Generally, required minimum distributions must be made by December 31st of each year. However, in the year the SEP-IRA owner

reaches age 70½, the required minimum distribution for that year need not be made until April 1st of the following year (the required beginning date).

Required minimum distributions may be calculated for each SEP IRA and distributions made from each SEP IRA as appropriate. Alternatively, required minimum distributions may be calculated for all SEP IRAs owned by the individual and distributions made from whichever SEP IRA or IRAs the IRA owner chooses.

The required minimum distribution for each year is generally calculated by dividing the SEP IRA account balance as of the end of the previous year by the life expectancy of the SEP IRA owner or the joint and survivor life expectancy of the SEP IRA owner and a designated beneficiary. Life expectancies for one life are based upon annuity Table V (see Appendix A); joint and survivor life expectancies are based upon annuity Table VI (see Appendix A).

Attained age is used for the age of the SEP IRA owner and beneficiary in the appropriate year. Thus, a SEP IRA owner whose birthday is in the first half of the year (January-June) will be age 70 in the year the SEP IRA owner turns 70½ and will enter the table using age 70. On the other hand, a SEP IRA owner whose birthday is in the second half of the year (July-December) will be age 71 in the year the SEP IRA owner turns 70½ and will enter the table using age 71.

Required minimum distributions may be calculated using either a recalculation method or a "subtract one" method. The recalculation method is available only for calculations of the life expectancy of the SEP IRA owner and the spouse of the SEP IRA owner. It essentially involves recalculating the life expectancy of the SEP IRA owner and/or spouse of the SEP IRA owner each year by reentering the life expectancy tables. For example, if the SEP IRA owner has no designated beneficiary and the SEP IRA owner attains age 70 in the year the owner reaches age 70½, life expectancy is 16 (see Table V) for that year, 15.3 in the following year, and so on. If the SEP IRA owner has no designated beneficiary and the SEP IRA owner attains age 71 in the year the owner reaches age 70½, life expectancy is 15.3 (see Table V) for that year, 14.6 in the following year, and so on.

Assuming the SEP IRA document permits it, the "subtract one" method can be used by the SEP IRA owner and the spouse of the SEP IRA

owner instead of the recalculation method. The "subtract one" method is required for any beneficiary other than the SEP IRA owner or the spouse of the SEP IRA owner.

The "subtract one" method involves determining the life expectancy of the SEP IRA owner or life expectancy of the SEP IRA owner and the designated beneficiary in the year the SEP IRA owner turns 70½, and then subtracting one from the life expectancy in each year thereafter. For example, if the SEP IRA owner has no designated beneficiary and the SEP IRA owner attains age 70 in the year the owner reaches age 70½, life expectancy is 16 (see Table V) for that year, 15 (16 - 1) in the following year, and so on. If the SEP IRA owner has no designated beneficiary and the SEP IRA owner attains age 71 in the year the owner reaches age 70½, life expectancy is 15.3 (see Table V) for that year, 14.3 (15.3 - 1) in the following year, and so on.

The recalculation method generally permits a slower payout than the "subtract one" method because the life expectancies in the tables drop by less than one year for each year that an individual survives. However, if a person whose life expectancy is being recalculated dies, such person's life expectancy drops to zero. For example, if the SEP IRA owner uses the recalculation method and has no designated beneficiary and the SEP IRA owner attains age 70 in the year the owner reaches age 70½, life expectancy is 16 (see Table V) for that year. But if the SEP IRA owner dies in the next year, life expectancy drops to zero and the entire SEP IRA must generally be distributed immediately. If the SEP IRA owner uses the "subtract one" method and has no designated beneficiary and the SEP IRA owner attains age 70 in the year the owner reaches age 70½, life expectancy is 16 (see Table V) for that year, 15 (16 - 1) in the following year, and so on. Even if the SEP IRA owner dies, payments are made over the 16 years of initial life expectancy.

While the SEP IRA owner is alive, a designated beneficiary other than the spouse of the SEP IRA owner is treated as no more than 10 years younger than the SEP IRA owner under the minimum distribution incidental benefit (MDIB) rule. If the amount determined under the MDIB rule is higher than the regular required minimum distribution, the higher amount is required to be distributed. In essence, the MDIB rule attempts to insure that distributions are primarily for the benefit of the owner of the SEP IRA. The rule does so by preventing distributions from being

excessively spread out over many years through the use of a beneficiary (except in the case of the spouse of the SEP IRA owner) who is much younger than the SEP IRA owner.

For example, if the owner of the SEP IRA is age 70 and the designated beneficiary (who is not the spouse of the SEP IRA owner) is age 40, the joint and survivor life expectancy for a person age 70 and a person age 40 would ordinarily be 42.9 (see Table VI). However, the MDIB rule would treat the designated beneficiary as being age 60 (70 - 10), and the resulting joint and survivor life expectancy for a person age 70 and a person age 60 would be 26.2 (see Table VI).

If the SEP IRA owner dies after the required beginning date (generally, April 1st after reaching age 70½), required minimum distributions generally must continue at least as rapidly as under the method used (or required) while the SEP IRA owner was alive. However, where the spouse of the SEP IRA owner is the designated beneficiary, after the owner's death such spouse can generally elect to be treated as the owner of the SEP IRA for purposes of the required minimum distribution rules.

If the SEP IRA owner dies before the required beginning date (generally, April 1st after reaching age 70½), the entire SEP IRA account must be distributed within five years unless the SEP IRA owner has designated a beneficiary. Where the SEP IRA owner has designated a beneficiary, distributions may be made over the life expectancy (Table V) of the beneficiary, as long as such distributions begin within one year of the owner's death.

However, where the spouse of the SEP IRA owner is the designated beneficiary, after the owner's death such spouse can generally elect to be treated as the owner of the SEP IRA for purposes of the required minimum distribution rules. Also, such spouse could postpone required minimum distributions until such time as the former SEP IRA owner would have reached age 70½.

For additional discussion of the required minimum distribution penalty, including the different methods of calculating the required minimum distribution and examples thereof, see Chapter 13.

ROLLOVERS

Rollovers are permitted between various retirement plans, IRAs, and tax sheltered annuities. In general, a rollover is a transfer of retirement assets from one plan to another by the participant or owner that is completed within 60 days of the distribution. The effect of a rollover is generally to avoid taxes and penalties upon what otherwise would be treated as a distribution.[42]

Rollovers are generally permitted from qualified retirement plans and tax sheltered annuities to a SEP IRA. Amounts rolled over from a qualified retirement plan or tax sheltered annuity are subject to 20 percent withholding unless the rollover is made through a direct trustee-to-trustee transfer.

Amounts rolled over from a qualified retirement plan to a SEP IRA can generally be rolled back to a qualified retirement plan if the rolled over amount was maintained in a SEP IRA to which no other amounts have been contributed or rolled over. Amounts rolled over from a tax sheltered annuity to a SEP IRA can generally be rolled back to a tax sheltered annuity if the rolled over amount was maintained in a SEP IRA to which no other amounts have been contributed or rolled over.

SEP IRAs do not make good conduit IRAs for qualified retirement plans and tax sheltered annuities because in order to roll an amount back to a qualified retirement plan or tax sheltered annuity no other amounts can be contributed or rolled over to the SEP IRA, which defeats the purpose for having a SEP IRA. Traditional IRAs (see Chapter 4) make much better conduit IRAs. A taxpayer can have many traditional IRAs, and create a conduit traditional IRA as needed.

Only one rollover is permitted from a particular IRA to any other IRA during the one-year period ending with the transfer from the first IRA. Also, in an IRA to IRA rollover, the receiving IRA cannot be an endowment contract. The one-year rollover limitation does not apply to trustee-to-trustee transfers.

Rollovers are permitted between SEP IRAs and traditional IRAs.

A rollover from a Roth IRA can be made only to another Roth IRA. Therefore, rollovers are not permitted from a Roth IRA to a SEP IRA. If a rollover is made from a SEP IRA to a Roth IRA, it is a taxable event and special provisions apply. See Chapter 5 on Roth IRAs.

Rollovers to or from an Education IRA are permitted only from or to another Education IRA. Therefore, rollovers cannot be made from an Education IRA to a SEP IRA or from a SEP IRA to an Education IRA.

Rollovers are permitted between SEP IRAs.

A rollover is not permitted from a SIMPLE IRA to any other IRA including a SEP IRA during the first two years that the individual participates in the SIMPLE IRA. The only rollover permitted to a SIMPLE IRA is from another SIMPLE IRA. Therefore, rollovers are not permitted from a SEP IRA to a SIMPLE IRA.

LOSSES (UNRECOVERED BASIS)

The Code provides that if annuity payments from a SEP IRA end upon the death of the annuitant and there is still unrecovered investment in the contract, the unrecovered investment in the contract is allowable as a deduction for the annuitant's final tax year. However, if refund payments are made to a beneficiary or the annuitant's estate after the annuitant's death, the deduction for unrecovered investment in the contract is taken by the person receiving the refund payments for the year in which received. The IRS provides additionally that when all amounts from all SEP IRAs have been distributed and the amounts distributed are less than the unrecovered basis, a loss may be recognized.[43]

An employee with a SEP IRA will generally have no basis in the SEP IRA because nondeductible contributions are not generally made to the SEP IRA. Therefore, there is generally no loss to be recognized with respect to a SEP IRA.

WITHHOLDING

Employer contributions to a SEP IRA are generally not subject to FICA (Social Security tax), FUTA (federal unemployment tax), or income tax withholding.[44]

Salary reduction contributions to a SAR-SEP IRA are generally subject to FICA (Social Security tax) and FUTA (federal unemployment tax) tax withholding, but not to income tax withholding.[45]

Distributions from a SEP IRA are distributions from an individual retirement plan subject to income tax withholding unless the individual elects to have withholding not apply. Thus, unless the election is made, periodic payments (annuity or similar payments) from a SEP IRA are subject to withholding at regular withholding rates and nonperiodic payments from a SEP IRA are subject to withholding at a 10 percent rate.[46]

However, a conversion of a SEP IRA into a Roth IRA (a qualified rollover) is a distribution subject to the income tax withholding rules above. However, withholding was not required for a 1998 conversion using a trustee-to-trustee transfer from a SEP IRA to a Roth IRA (without regard to whether or not the individual elected to have no withholding).[47]

TRANSFER TAXES

A SEP IRA will generally be fully includable in the estate of the original SEP IRA owner. A decedent's estate includes the value of an annuity or other payment receivable by reason of surviving the decedent where the decedent held certain interests in the property while alive. The amount includable is proportionate to the part of the purchase price contributed by the decedent. Any contribution by the employer of the decedent to the SEP IRA is treated as made by the employee for this purpose.[48] Thus, the original SEP IRA owner will generally have contributed 100 percent of the contributions to the SEP IRA and the full value of the SEP IRA will be includable in the original owner's estate.

If upon the original owner's death the SEP IRA passes to the spouse of the original SEP IRA owner, the transfer will generally qualify for the marital deduction (see Chapter 17). If the transfer to the surviving spouse qualified for the marital deduction, any amount still left in the SEP IRA at the surviving spouse's death will be includable in the surviving spouse's estate.

If the SEP IRA passes to a skip person (generally, a person two or more generations younger than the transferor), the generation-skipping transfer tax must be taken into consideration. See Chapter 18.

CHAPTER ENDNOTES

1. IRC Sec. 404(h).
2. IRC Secs. 408(k)(2), 408(k)(8); IR-1999-80.
3. IRC Sec. 408(k)(3); IR-1999-80.
4. IRC Sec. 408(k)(4).
5. IRC Sec. 408(k)(5).
6. IRC Sec. 415(a)(2)(C).
7. IRC Sec. 415, prior to repeal by the Small Business Job Protection Act of 1996.
8. IRC Sec. 4972(a).
9. IRC Sec. 4972(b).
10. IRC Sec. 404(h).
11. IRC Secs. 3121(a)(5)(C), 3306(b)(5)(C), 3401(a)(12)(C).
12. IRC Sec. 219(e)(1).
13. IRC Secs. 219(f)(3), 408(o)(3).
14. IRC Sec. 219(d)(1).
15. IRC Sec. 219(d)(4).
16. IRC Sec. 219(b)(1).
17. IRC Sec. 219(g).
18. See Reg. §1.219-2(d)(1).
19. IRC Sec. 62(a)(7).
20. IRC Sec. 408(o)(2)(B)(ii).
21. IRC Sec. 408(o)(2).
22. IRC Secs. 219(b)(1), 408(o)(2), 408A(c)(2).
23. IRC Sec. 4973(a).
24. IRC Secs. 4973(b), 219(f)(6).
25. IRC Sec. 408(k)(6).
26. IRC Sec. 408(k)(6).
27. IRC Sec. 4979.
28. IRC Sec. 408(k)(6)(C).
29. IRC Secs. 3121(a)(5)(C), 3306(b)(5)(C), 3401(a)(12)(C).
30. IRC Secs. 408(e), 408(m).
31. IRC Sec. 408(a)(3).
32. IRC Sec. 408(b).
33. IRC Secs. 408(e), 408(m).
34. IRC Secs. 402(h)(3), 408(d)(1), 408(d)(2), 72(b).
35. Notice 87-16(III), 1987-1 CB 446.
36. IRC Sec. 72(t).
37. IRC Sec. 408(k)(6)(F)(ii).
38. IRC Sec. 408(d)(7).
39. Notice 89-25(A-12), 1989-1 CB 662.
40. IRC Secs. 408(a)(6), 408(b)(3), 401(a)(9), 4974(a).
41. Prop. Reg. §1.401(a)(9)-2(A-4).
42. See IRC Sec. 408(d)(3).
43. IRC Sec. 72(b)(3); Notice 89-25(A-7), 1989-1 CB 662, clarifying Notice 87-16(D-5), 1987-1 CB 446.
44. IRC Secs. 3121(a)(5)(C), 3306(b)(5)(C), 3401(a)(12)(C).
45. Ibid.
46. IRC Sec. 3405.
47. Reg. §1.408A-6(A-13).
48. IRC Sec. 2039.

Chapter 8

SIMPLE IRAS

A SIMPLE IRA is a recent creation which allows for higher contribution levels than are permitted for traditional and Roth IRAs and permits salary reduction contributions while relaxing the rules for qualified plans. However, in order to qualify for a SIMPLE IRA, an employer can generally have no more than 100 employees. An employer with more than 100 employees may wish to consider a SEP IRA (see Chapter 7).

An employee can elect to make salary reduction contributions to a SIMPLE IRA. In addition, the employer makes either matching contributions or nonelective contributions which are not based upon salary reduction contributions. The employer takes a deduction for the salary reduction contributions, as well as the matching or nonelective contributions. The employee excludes such contributions from income.

Amounts contributed to a SIMPLE IRA can be invested in a wide variety of investments. Such amounts grow within the IRA account on a tax-deferred basis; there is generally no taxation until amounts are distributed.

Usually, all contributions to the SIMPLE IRA are excluded from income when contributed and the full amount distributed from a SIMPLE IRA is includable in income.

Distributions received before the individual reaches age 59½ are generally subject to a premature distribution penalty tax to the extent the distribution is includable in income unless an exception applies. Once the individual reaches age 70½, required minimum distributions must be made from the SIMPLE IRA or a penalty tax applies.

EMPLOYER REQUIREMENTS

An eligible employer for purposes of SIMPLE IRAs means an employer with no more than 100 employees with at least $5,000 of

compensation from the employer for the preceding year.[1] Furthermore, the SIMPLE IRA must be the exclusive plan for the employer.[2] Certain transition rules are provided for an employer following an acquisition, disposition, or similar transaction.[3]

CONTRIBUTIONS

The only contributions permitted to a SIMPLE IRA are salary reduction contributions made by the employer for an employee and certain matching or nonelective contributions by the employer.[4] The employer takes a deduction for the salary reduction, matching, and nonelective contributions.[5] The employee excludes the salary reduction, matching, and nonelective contributions from income.[6] Certain limitations apply and excess contributions are generally subject to a penalty tax.

A SIMPLE IRA provides that an employee can elect for any year to have the employer either (1) make elective employer contributions to the SIMPLE IRA on behalf of the employee or (2) distribute the amount in cash to the employee.[7] If the employee takes cash, the distribution is includable in the employee's income. If the employee chooses salary reduction, the employee excludes the amount of the salary reduction and taxation is generally deferred until distributions are made from the SIMPLE IRA. Thus, salary reduction is a form of elective deferral or a cash or deferred arrangement.

According to the Code, the amount of salary reduction contributions that can be made for any employee in any year is required to be expressed as a percentage of the employee's compensation and cannot exceed $6,000 (as indexed for 2000).[8] However, according to the Internal Revenue Service, the employer may permit the employee to express the level of salary reduction as a specific dollar amount, and the employer must not place any restrictions on the amount of the employee's salary reduction contributions other than the $6,000 limit (as indexed).[9]

Each year each employee eligible to participate in the SIMPLE IRA can elect during the 60-day period preceding such year to participate in the salary reduction arrangement or to modify the amount subject to the arrangement.[10] The employee must be permitted to elect to have the salary reduction contributions made at the level specified by the employee, subject to the $6,000 limit (as indexed).[11] Where an employee

was not previously eligible to participate, the employee can make the election during the 60-day period preceding the first day the employee is eligible.[12]

An employee can elect at any time during the year to terminate participation in the salary reduction arrangement. If the employee does so, the SIMPLE IRA can provide that the employee cannot resume participation until the following year.[13]

Salary reduction contributions to a SIMPLE IRA must be made by the employer no later than 30 days following the end of the month for which the contributions are to be made.[14]

Salary reduction contributions to a SIMPLE IRA are not subject to income tax withholding; they are subject to FICA (Social Security tax) and FUTA (federal unemployment tax).[15]

A SIMPLE IRA also provides that, for any year, the employer must make matching contributions on behalf of employees, or elect to make nonelective contributions.[16] (The term "nonelective contributions" refers to contributions being made without regard to whether salary reduction contributions have been elected by the employee.)

If the employer elects matching contributions, the employer must contribute to the SIMPLE IRA an amount equal to the lesser of (1) the amount of the salary reduction contribution to the IRA for the employee, or (2) the applicable percentage of compensation for the year. The applicable percentage is three percent unless the employer elects for any year to use a lower percentage of not less than one percent. An election to use an applicable percentage of less than three percent cannot be made for any year if the applicable percentage would be less than three percent in more than two years of the five-year period ending with such year. In other words, an applicable percentage rate of less than three percent can be used in no more than two years during any five-year period. For this purpose, the applicable percentage is deemed to have been three percent in years prior to the existence of the SIMPLE IRA.

The maximum that could be contributed to a SIMPLE IRA using matching contributions is $12,000: $6,000 maximum salary reduction + $6,000 matching contribution [$6,000 matching contribution would re-

quire $200,000 of employee compensation with a three percent match (3% x $200,000 = $6,000)].

Matching contributions made on behalf of a self-employed individual are not treated as elective employer contributions to a SIMPLE IRA.[17]

If the employer elects to make nonelective contributions, the employer contributes to the SIMPLE IRA of each eligible employee with at least $5,000 of compensation from the employer for the year an amount equal to two percent of compensation (not to exceed $170,000 as indexed for 2000). If this election is made, this amount is contributed without regard to whether salary reduction contributions have been elected.

The maximum that could be contributed to a SIMPLE IRA using nonelective contributions is $9,400: $6,000 maximum salary reduction + $3,400 nonelective contribution (2% of maximum compensation of $170,000).

Matching contributions and nonelective contributions to a SIMPLE IRA must be made by the employer no later than the time for filing the return for the taxable year (including extensions).[18]

Matching contributions and nonelective contributions to a SIMPLE IRA are not subject to FICA (Social Security tax), FUTA (federal unemployment tax), or income tax withholding.[19]

In general, all employees of the employer maintaining a SIMPLE IRA who received at least $5,000 in compensation from the employer for the two preceding years and are reasonably expected to have $5,000 in compensation from the employer for the current year must be eligible to either make a salary reduction contribution election or receive nonelective contributions. Certain employees covered by collective bargaining and nonresident aliens need not be covered under the SIMPLE IRA.[20]

The employee's rights to any contribution to a SIMPLE IRA must be nonforfeitable. Also, contributions to a SIMPLE IRA may not be conditioned on the employee retaining such contributions in the SIMPLE IRA. Nor can the employer prohibit withdrawal of such contributions from the SIMPLE IRA.[21]

The employer can make all SIMPLE IRA contributions to a designated financial institution. However, the employee must be notified in writing that the employee can have the employee's balance rolled over to another SIMPLE IRA or, if the rollover occurs after the two-year period beginning with the date the employee first participated in the salary reduction arrangement, to an IRA other than a SIMPLE IRA.[22]

In the case of a nondeductible contribution to a SIMPLE IRA by the employer, a 10 percent penalty tax is imposed on the employer.[23] In general, a nondeductible contribution is any portion of a contribution to a SIMPLE IRA by the employer in excess of the amount allowable as a deduction by the employer. However, it is necessary to keep a running account of such nondeductible contributions (i.e., it is necessary to keep track of contributions and distributions for the current year and preceding years in order to determine if there is a nondeductible contribution for the current year).

More technically, a nondeductible contribution for any taxable year equals the sum of (1) the excess of employer contributions to SIMPLE IRAs and other retirement plans over the amounts allowable as a deduction for such contributions, and (2) amounts determined under this calculation for the preceding taxable year reduced by the sum of (a) such amounts returned to the employer during the current year, and (b) such amounts deductible for the current year. For this purpose, nondeductible contributions from previous years are carried over and the amount allowable as a deduction in any year is treated as first consisting of carryovers from prior years (and from oldest carryovers first) and then from contributions made during the current year. Thus, a nondeductible contribution carried over from a previous year can be used up as a contribution in a subsequent year.[24]

Example. The only plan maintained by Company is a SIMPLE IRA. Assume that the maximum permissible contribution to the SIMPLE IRA for Ann is $10,800 for all years. Company contributed $11,000 to the SIMPLE IRA for Ann in 1998, resulting in a nondeductible contribution of $200 ($11,000 - $10,800). Company contributed $12,000 to the SIMPLE IRA in 1999, resulting in a nondeductible contribution of $1,400 [($12,000 - $10,800) plus the $200 carryover from 1998]. In 2000, Company does not contribute to the

SIMPLE IRA. The $1,400 carryover from 1999 is treated as contributed (and deductible) in 2000 and is less than $10,800; there is no nondeductible contribution.

ACCUMULATIONS/INVESTMENTS

Amounts earned within a SIMPLE IRA generally accumulate on a tax-deferred basis. Earnings are generally not taxable until distributed from the SIMPLE IRA. However, a SIMPLE IRA is taxed if it has unrelated business taxable income. Furthermore, part or all of the SIMPLE IRA may be deemed distributed if the SIMPLE IRA owner engages in a prohibited transaction, borrows on an annuity contract, pledges the account as security for a loan, purchases an endowment contract, or invests in certain collectibles.[25] A SIMPLE IRA account, as with all IRA accounts, cannot invest in life insurance contracts.[26] The IRA can be in the form of an individual retirement annuity.[27]

An individual retirement annuity is an annuity contract or endowment contract issued by an insurance company meeting certain requirements: (1) the contract cannot be transferable by the owner; (2) the premiums may not be fixed; (3) the annual premium cannot exceed $2,000; (4) any refund of premiums must be applied before the end of the next year to pay future premiums or to purchase additional benefits; (5) the required minimum distribution and minimum distribution incidental death benefit rules apply; and (6) the entire interest of the owner must be nonforfeitable. For this purpose, an endowment contract cannot mature later than the taxable year in which the SIMPLE IRA owner reaches age 70½ and must be for the exclusive benefit of the SIMPLE IRA owner or beneficiary. Aggregate annual premiums for all endowment contracts purchased for the SIMPLE IRA owner cannot exceed $2,000.

See Chapter 3 for more information on limitations on accumulations in an IRA.

DISTRIBUTIONS

Amounts distributed from a SIMPLE IRA are generally fully includable in taxable income. Amounts distributed before the SIMPLE IRA owner reaches age 59½ that are includable in income are subject to a premature distribution penalty tax unless certain exceptions are met.

Amounts distributed within the first two years that an employee participates in a SIMPLE IRA are subject to an increased premature distribution penalty tax. Required minimum distributions must begin when the SIMPLE IRA owner reaches age 70½ or a penalty tax applies. A rollover (see heading below) from a SIMPLE IRA is generally not treated as a distribution from a SIMPLE IRA.

Part or all of the SIMPLE IRA may be deemed distributed if the SIMPLE IRA owner engages in a prohibited transaction, borrows on an annuity contract, pledges the account as security for a loan, purchases an endowment contract, or invests in certain collectibles.[28]

Amounts distributed from a SIMPLE IRA generally represent one of two categories: employer contributions to the IRA (including salary reduction contributions, matching contributions, and nonelective contributions) and earnings on contributions within the IRA. Employer contributions to a SIMPLE IRA are excludable from the employee's income when made; therefore, employer contributions represent property that has not been subjected to income tax. Earnings on contributions within the IRA generally accumulate tax-free (see above); therefore earnings on contributions also represent property that has not been subjected to income tax.

If excess contributions were made to the SIMPLE IRA, such contributions would be treated as nondeductible contributions to the IRA (as well as being subject to the nondeductible contribution penalty tax, see above). Nondeductible contributions to the IRA are contributed on an after-tax basis. As a result, nondeductible contributions to a SIMPLE IRA can be recovered tax-free from the IRA (similar to investment in the contract or basis). Such nondeductible contributions would be excludable on a prorated basis (see discussion of distributions from a traditional IRA in Chapter 4).

However, employer contributions to a SIMPLE IRA, as well as earnings on contributions within a SIMPLE IRA, are includable in income upon distribution from a SIMPLE IRA. Thus, in the normal case the full amount of a distribution from a SIMPLE IRA will be includable in income.

Premature Distributions

In general, distributions from a SIMPLE IRA received before age 59½ are subject to a 10 percent penalty tax on premature distributions.

However, the penalty tax only applies to the extent that the distribution is includable in income and a number of exceptions to application of the penalty apply.[29] However, in the case of any amount received from a SIMPLE IRA within the first two years that an employee participates in the SIMPLE IRA, the 10 percent penalty tax on premature distributions is increased to 25 percent.[30]

Otherwise, the premature distribution penalty tax does not apply to distributions from a SIMPLE IRA which are:

(1) made after the death of the SIMPLE IRA owner;

(2) attributable to the SIMPLE IRA owner's disability;

(3) part of a series of substantially equal periodic payments (at least annually) made for the life (or life expectancy) or the joint life (or life expectancies) of the SIMPLE IRA owner and a designated beneficiary (the penalty tax plus interest is due if the substantially equal periodic payments are modified before the later of five years after payments have begun or the SIMPLE IRA owner reaches age 59½);

(4) made for medical care to the extent generally allowable as a medical expense deduction (generally, unreimbursed medical expenses in excess of 7.5 percent of adjusted gross income; for this purpose, itemization of deductions is not required);

(5) made to the SIMPLE IRA owner who is unemployed for payment of health insurance premiums;

(6) made to the SIMPLE IRA owner for payment of qualified higher education expenses furnished to the SIMPLE IRA owner, the SIMPLE IRA owner's spouse, or children or grandchildren of either; or

(7) made to the SIMPLE IRA owner ($10,000 lifetime limit) for purchase of a first home by the SIMPLE IRA owner, the SIMPLE IRA owner's spouse, or children, grandchildren, or ancestor of either.

The IRS has approved three methods for calculating substantially equal periodic payments:

(1) payments which satisfy the required minimum distributions method (see heading below);

(2) amortization of payments over the life expectancy of the SIMPLE IRA owner (Annuity Table V) or joint and survivor life expectancy of the SIMPLE IRA owner and beneficiary (Annuity Table VI) using a reasonable interest rate; and

(3) annuitization of payments for the life of the SIMPLE IRA owner or the lives of the SIMPLE IRA owner and beneficiary using a reasonable mortality table and interest rate.[31]

The first method requires recalculation of payments each year, while the second and third methods provide constant payments.

For additional discussion of the premature distribution penalty, including examples of the substantially equal periodic payment exceptions, see Chapter 13.

Required Minimum Distributions

When a SIMPLE IRA owner reaches age 70½, the SIMPLE IRA owner must begin taking required minimum distributions. In general, the required minimum distribution rules cause the SIMPLE IRA owner to withdraw the entire IRA account balance over the SIMPLE IRA owner's life or the lives of the SIMPLE IRA owner and a designated beneficiary. If there is more than one beneficiary other than the SIMPLE IRA owner, the oldest other beneficiary's life expectancy is used for the designated beneficiary. Special rules apply where the spouse of the SIMPLE IRA owner is the designated beneficiary. Failure to withdraw the required minimum distribution results in a 50 percent penalty tax on the amount by which the required minimum distribution exceeds the actual amount withdrawn.[32]

An additional rule, the minimum distribution incidental benefit (MDIB) rule, is designed to insure that the SIMPLE IRA distributions are primarily for the benefit of the SIMPLE IRA owner. The rule does this,

while the SIMPLE IRA owner is alive, by treating a beneficiary other than the spouse of the SIMPLE IRA owner as no more than 10 years younger than the SIMPLE IRA owner.[33]

In the case of a SIMPLE IRA, required minimum distributions must begin by April 1 of the year following the year the SIMPLE IRA owner reaches age 70½. Generally, required minimum distributions must be made by December 31st of each year. However, in the year the SIMPLE IRA owner reaches age 70½, the required minimum distribution for that year need not be made until April 1st of the following year (the required beginning date).

Required minimum distributions may be calculated for each SIMPLE IRA and distributions made from each IRA as appropriate. Alternatively, required minimum distributions may be calculated for all SIMPLE IRAs owned by the individual and distributions made from whichever SIMPLE IRA or IRAs the IRA owner chooses.

The required minimum distribution for each year is generally calculated by dividing the SIMPLE IRA account balance as of the end of the previous year by the life expectancy of the SIMPLE IRA owner or the joint and survivor life expectancy of the SIMPLE IRA owner and a designated beneficiary. Life expectancies for one life are based upon annuity Table V (see Appendix A); joint and survivor life expectancies are based upon annuity Table VI (see Appendix A).

Attained age is used for the age of the SIMPLE IRA owner and beneficiary in the appropriate year. Thus, an SIMPLE IRA owner whose birthday is in the first half of the year (January-June) will be age 70 in the year the SIMPLE IRA owner turns 70½ and will enter the table using age 70. On the other hand, an SIMPLE IRA owner whose birthday is in the second half of the year (July-December) will be age 71 in the year the SIMPLE IRA owner turns 70½ and will enter the table using age 71.

Required minimum distributions may be calculated using either a recalculation method or a "subtract one" method. The recalculation method is available only for calculations of the life expectancy of the SIMPLE IRA owner and the spouse of the SIMPLE IRA owner. It essentially involves recalculating the life expectancy of the SIMPLE IRA owner and/or spouse of the SIMPLE IRA owner each year by reentering

the life expectancy tables. For example, if the SIMPLE IRA owner has no designated beneficiary and the SIMPLE IRA owner attains age 70 in the year the owner reaches age 70½, life expectancy is 16 (see Table V) for that year, 15.3 in the following year, and so on. If the SIMPLE IRA owner has no designated beneficiary and the SIMPLE IRA owner attains age 71 in the year the owner reaches age 70½, life expectancy is 15.3 (see Table V) for that year, 14.6 in the following year, and so on.

Assuming the IRA document permits it, the "subtract one" method can be used by the SIMPLE IRA owner and the spouse of the SIMPLE IRA owner instead of the recalculation method. The "subtract one" method is required for any beneficiary other than the SIMPLE IRA owner or the spouse of the SIMPLE IRA owner.

The "subtract one" method involves determining the life expectancy of the SIMPLE IRA owner or life expectancy of the SIMPLE IRA owner and the designated beneficiary in the year the SIMPLE IRA owner turns 70½, and then subtracting one from the life expectancy in each year thereafter. For example, if the SIMPLE IRA owner has no designated beneficiary and the SIMPLE IRA owner attains age 70 in the year the owner reaches age 70½, life expectancy is 16 (see Table V) for that year, 15 (16 - 1) in the following year, and so on. If the SIMPLE IRA owner has no designated beneficiary and the SIMPLE IRA owner attains age 71 in the year the owner reaches age 70½, life expectancy is 15.3 (see Table V) for that year, 14.3 (15.3 - 1) in the following year, and so on.

The recalculation method generally permits a slower payout than the "subtract one" method because the life expectancies in the tables drop by less than one year for each year that an individual survives. However, if a person whose life expectancy is being recalculated dies, such person's life expectancy drops to zero. For example, if the SIMPLE IRA owner uses the recalculation method and has no designated beneficiary and the SIMPLE IRA owner attains age 70 in the year the owner reaches age 70½, life expectancy is 16 (see Table V) for that year. But if the SIMPLE IRA owner dies in the next year, life expectancy drops to zero and the entire IRA must generally be distributed immediately. If the SIMPLE IRA owner uses the "subtract one" method and has no designated beneficiary and the SIMPLE IRA owner attains age 70 in the year the owner reaches age 70½, life expectancy is 16 (see Table V) for that year, 15 (16 - 1) in

the following year, and so on. Even if the SIMPLE IRA owner dies, payments are made over the 16 years of initial life expectancy.

While the SIMPLE IRA owner is alive, a designated beneficiary other than the spouse of the SIMPLE IRA owner is treated as no more than 10 years younger than the SIMPLE IRA owner under the minimum distribution incidental benefit (MDIB) rule. If the amount determined under the MDIB rule is higher than the regular required minimum distribution, the higher amount is required to be distributed. In essence, the MDIB rule attempts to insure that distributions are primarily for the benefit of the owner of the SIMPLE IRA. The rule does so by preventing distributions from being excessively spread out over many years through the use of a beneficiary (except in the case of the spouse of the SIMPLE IRA owner) who is much younger than the SIMPLE IRA owner.

For example, if the owner of the SIMPLE IRA is age 70 and the designated beneficiary (who is not the spouse of the SIMPLE IRA owner) is age 40, the joint and survivor life expectancy for a person age 70 and a person age 40 would ordinarily be 42.9 (see Table VI). However, the MDIB rule would treat the designated beneficiary as being age 60 (70 - 10), and the resulting joint and survivor life expectancy for a person age 70 and a person age 60 would be 26.2 (see Table VI).

If the SIMPLE IRA owner dies after the required beginning date (generally, April 1st after reaching age 70½), required minimum distributions generally must continue at least as rapidly as under the method used (or required) while the SIMPLE IRA owner was alive. However, where the spouse of the SIMPLE IRA owner is the designated beneficiary, after the owner's death such spouse can generally elect to be treated as the owner of the SIMPLE IRA for purposes of the required minimum distribution rules.

If the SIMPLE IRA owner dies before the required beginning date (generally, April 1st after reaching age 70½), the entire IRA account must be distributed within five years unless the SIMPLE IRA owner has designated a beneficiary. Where the SIMPLE IRA owner has designated a beneficiary, distributions may be made over the life expectancy (Table V) of the beneficiary, as long as such distributions begin within one year of owner's death.

However, where the spouse of the SIMPLE IRA owner is the designated beneficiary, after the owner's death such spouse can generally elect to be treated as the owner of the SIMPLE IRA for purposes of the required minimum distribution rules. Also, such spouse could postpone required minimum distributions until such time as the former SIMPLE IRA owner would have reached age 70½.

For additional discussion of the required minimum distribution penalty, including the different methods of calculating the required minimum distribution and examples thereof, see Chapter 13.

ROLLOVERS

Rollovers are permitted between various retirement plans, IRAs, and tax sheltered annuities. In general, a rollover is a transfer of retirement assets from one plan to another by the participant or owner which is completed within 60 days of the distribution. The effect of a rollover is generally to avoid taxes and penalties upon what otherwise would be treated as a distribution.[34]

Only one rollover is permitted from a particular IRA to any other IRA during the one-year period ending with the transfer from the first IRA. Also, in an IRA to IRA rollover, the receiving IRA cannot be an endowment contract. The one-year rollover limitation does not apply to trustee-to-trustee transfers.

SIMPLE IRA amounts can be rolled over only to another IRA (but not to an Education IRA). A SIMPLE IRA can generally be rolled over to another SIMPLE IRA. However a rollover from a SIMPLE IRA to any other type of IRA is not permitted until after the two-year period beginning with the date the employee first participated in the salary reduction arrangement. Furthermore, any amount received from a SIMPLE IRA within the first two years that an employee participates in the SIMPLE IRA is subject to a 25 percent penalty tax on premature distributions.[35]

If a rollover is made from a SIMPLE IRA to a Roth IRA, it is a taxable event and special provisions apply. See Chapter 5 on Roth IRAs.

The only rollover permitted to a SIMPLE IRA is from another SIMPLE IRA.

LOSSES (UNRECOVERED BASIS)

The Code provides that if annuity payments from a SIMPLE IRA end upon the death of the annuitant and there is still unrecovered investment in the contract, the unrecovered investment in the contract is allowable as a deduction for the annuitant's final tax year. However, if refund payments are made to a beneficiary or the annuitant's estate after the annuitant's death, the deduction for unrecovered investment in the contract is taken by the person receiving the refund payments for the year in which received. The IRS provides additionally that when all amounts from all SIMPLE IRAs have been distributed and the amounts distributed are less than the unrecovered basis, a loss may be recognized.[36]

An employee with a SIMPLE IRA will have no basis in the SIMPLE IRA because only excludable contributions can be made to the SIMPLE IRA. Therefore, there is no loss to be recognized with respect to a SIMPLE IRA.

WITHHOLDING

Salary reduction contributions to a SIMPLE IRA are not subject to income tax withholding; they are subject to FICA (Social Security tax) and FUTA (federal unemployment tax).[37]

Matching contributions and nonelective contributions to a SIMPLE IRA are not subject to FICA (Social Security tax), FUTA (federal unemployment tax), or income tax withholding.[38]

Distributions from a SIMPLE IRA are distributions from a retirement plan subject to income tax withholding unless the individual elects to have withholding not apply. Thus, unless the election is made, periodic payments (annuity or similar payments) from a SIMPLE IRA are subject to withholding at regular withholding rates and nonperiodic payments from a traditional IRA are subject to withholding at a ten percent rate.[39]

However, a conversion of a SIMPLE IRA into a Roth IRA (a qualified rollover) is a distribution subject to the income tax withholding rules above. However, withholding was not required for a 1998 conversion using a trustee-to-trustee transfer from a SIMPLE IRA to a Roth IRA (without regard to whether or not the individual elected to have no withholding).[40]

TRANSFER TAXES

A SIMPLE IRA will generally be fully includable in the estate of the original SIMPLE IRA owner. A decedent's estate includes the value of an annuity or other payment receivable by reason of surviving the decedent where the decedent held certain interests in the property while alive. The amount includable is proportionate to the part of the purchase price contributed by the decedent. Any contribution by the employer of the decedent to the SIMPLE IRA is treated as made by the employee for this purpose.[41] Thus, the original SIMPLE IRA owner will generally have contributed 100 percent of the contributions to the SIMPLE IRA and the full value of the SIMPLE IRA will be includable in the original owner's estate.

If upon the original owner's death the SIMPLE IRA passes to the spouse of the original SIMPLE IRA owner, the transfer will generally qualify for the marital deduction (see Chapter 17). If the transfer to the surviving spouse qualified for the marital deduction, any amount still left in the SIMPLE IRA at the surviving spouse's death will be includable in the surviving spouse's estate.

If the SIMPLE IRA passes to a skip person (generally, a person two or more generations younger than the transferor), the generation-skipping transfer tax must be taken into consideration. See Chapter 18.

CHAPTER ENDNOTES

1. IRC Sec. 408(p)(2)(C)(i).
2. IRC Sec. 408(p)(2)(D).
3. IRC Sec. 408(p)(10).
4. IRC Sec. 408(p)(1)(B).
5. IRC Sec. 404(m)(1).
6. IRC Secs. 402(k), 402(h)(1).
7. IRC Sec. 408(p)(2)(A)(i).
8. IRC Secs. 408(p)(2)(A)(ii), 408(p)(2)(E); IR-1999-80.
9. Notice 98-4(D-2), 1998-2 IRB 26.
10. IRC Sec. 408(p)(5)(C).
11. Notice 98-4(D-2), 1998-2 IRB 26.
12. IRC Sec. 408(p)(5)(C).
13. IRC Sec. 408(p)(5)(B).
14. IRC Sec. 408(p)(5)(A)(i).
15. IRC Secs. 3121(a)(5)(H), 3306(b)(5)(H), 3401(a)(12)(D).
16. IRC Sec. 408(p)(2).
17. IRC Sec. 408(p)(9).

18. IRC Sec. 408(p)(5)(A)(ii).
19. IRC Secs. 3121(a), 3306(b)(5)(H), 3401(a)(12)(D).
20. IRC Sec. 408(p)(4).
21. IRC Secs. 408(p)(3), 408(k)(4).
22. IRC Secs. 408(p)(7), 408(d)(3)(g), 72(t)(6).
23. IRC Sec. 4972(a).
24. IRC Sec. 4972(b).
25. IRC Secs. 408(e), 408(m).
26. IRC Sec. 408(a)(3).
27. IRC Sec. 408(b).
28. IRC Secs. 408(e), 408(m).
29. IRC Sec. 72(t).
30. IRC Sec. 72(t)(6).
31. Notice 89-25(A-12), 1989-1 CB 662.
32. IRC Secs. 408(a)(6), 408(b)(3), 401(a)(9), 4974(a).
33. Prop. Reg. §1.401(a)(9)-2(A-4).
34. See IRC Sec. 408(d)(3).
35. IRC Secs. 408(d)(3)(g), 72(t)(6).
36. IRC Sec. 72(b)(3); Notice 89-25(A-7), 1989-1 CB 662 clarifying Notice 87-16(D5), 1987-1 CB 446.
37. IRC Secs. 3121(a)(5)(H), 3306(b)(5)(H), 3401(a)(12)(D).
38. IRC Secs. 3121(a), 3306(b)(5)(H), 3401(a)(12)(D).
39. IRC Sec. 3405.
40. Regs. §§1.408A-4, A-4; 1.408A-6(A-13).
41. IRC Sec. 2039.

Part III:
IRA PLANNING

Chapter 9

SELECTING AN IRA

Selecting an IRA generally involves choices regarding which type of IRA to use, what to invest the IRA in, and who to invest with.

For planning issues with IRAs regarding planning for education, purchase of a home, retirement, or spouses, or dynasty generational estate planning, see Chapter 10.

CHOOSING IRA TYPE

Choosing an IRA type can depend on many factors. An employer can choose between a SEP IRA or a SIMPLE IRA as a substitute for more complex qualified plans. An employee covered by a SAR-SEP IRA or a SIMPLE IRA with limited funds may have to decide between contributions to the SAR-SEP IRA or SIMPLE IRA or to a Roth or traditional IRA. The amount of an individual's compensation can determine whether an individual can make deductible contributions to a traditional IRA, nondeductible contributions to a Roth IRA, and contributions to an Education IRA. The age of the IRA owner affects whether contributions can be made to a particular type of IRA and when distributions are required from a particular type of IRA. Before a person makes a contribution to a traditional or Roth IRA, the person will probably want to know whether it is better from a time value of money standpoint to make deductible contributions to a traditional IRA or nondeductible contributions to a Roth IRA. All of these are discussed below.

Employers

In general, an employer can create a SEP IRA or a SIMPLE IRA for the benefit of employees or contribute to traditional or Roth IRAs for the benefit of employees. Also, an employer with an existing SAR-SEP IRA can continue the SAR-SEP IRA. The employer takes a deduction for its contributions to such IRAs.

An employer who wishes to provide a retirement plan to employees, but who wishes to avoid the complexity normally associated with qualified plans, could provide employees with a SEP IRA (including a SAR-SEP IRA) or a SIMPLE IRA. However, in general, an employer with a SAR-SEP IRA can have no more than 25 employees and an employer with a SIMPLE IRA can have no more than 100 employees; there are no limitations on the number of employees that an employer can have with a SEP IRA.

With a SEP IRA, contributions are made by an employer based upon a definite written allocation formula which specifies how an employee qualifies for employer contributions and how the amount of employer contributions is calculated. The employer's deduction for contributions to the SEP IRA is limited to 15 percent of the employees' compensation. The amount of compensation taken into account of each employee cannot exceed $170,000 (as indexed); thus, the employer's deduction and the resulting employee's exclusion from income is limited to $25,500 (or possibly less in case of certain highly compensated employees in a SEP IRA that is integrated with Social Security). Also, contributions must bear a uniform relationship (e.g., five percent) to compensation (not to exceed $170,000 as indexed for 2000) of each employee maintaining a SEP IRA. Other overall limitations on contributions to qualified plans may apply.

A SAR-SEP IRA is generally treated like a SEP IRA, except that an employee in a SAR-SEP IRA can make salary reduction contributions. Salary reduction essentially means that the employee can choose to receive cash that is immediately taxable or contributions to the SAR-SEP IRA that are generally tax deferred until distributed from the SAR-SEP IRA. Salary reduction contributions to a SAR-SEP IRA, as well as all other elective deferrals to retirement plans, are subject to a combined overall limitation of $10,500 (as indexed for 2000) for elective deferrals in a year.

With a SIMPLE IRA, the employer is required to make either matching contributions or nonelective contributions for employees. Matching contributions are generally equal to the lesser of three percent of an employee's compensation (an applicable percentage rate of less than three percent but no less than one percent can be used twice every five years) or the employee's salary reduction. An employee can generally elect a salary reduction amount up to $6,000 (as indexed for 2000).

With matching contributions, the maximum employer contribution for an employee would be $6,000; a $6,000 matching contribution would require at least $200,000 of employee compensation with a three percent match (3% x $200,000 = $6,000). However, matching contributions are made only for employees who elect salary reduction.

Alternatively, with a SIMPLE IRA, the employer can elect to make nonelective contributions rather than matching contributions. (The term "nonelective contributions" refers to contributions being made without regard to whether salary reduction contributions have been elected.) Nonelective contributions are made by the employer in an amount equal to two percent of compensation (not to exceed $170,000 as indexed for 2000).

Thus, with nonelective contributions, the maximum employer contribution for an employee is $3,400 ($170,000 x 2%). However, as noted, nonelective contributions must be made whether or not the employee elects salary reduction.

An employer can also make contributions for an employee to a traditional IRA or a Roth IRA. The employer takes a deduction for the contribution as compensation paid to the employee and the employee includes the contribution in income as compensation. The employee is then treated as making a contribution to the traditional or Roth IRA. In the case of the traditional IRA, the employee may be entitled to a deduction for the contribution. Similar contributions can be made to a SEP IRA.

However, the maximum contributions that can be made to traditional IRAs, Roth IRAs, and SEP IRAs (disregarding employer contributions to a SEP IRA described above) is $2,000 for any individual in any year. For these types of contributions, the employer can choose whether or not to make a contribution for any particular employee.

Employees

If an employee who is entitled to make salary reduction contributions to a SAR-SEP IRA or a SIMPLE IRA for which the employer will make matching contributions cannot afford to make both a salary reduction contribution and a regular contribution to a traditional or Roth IRA, the employee should generally make the salary reduction contribution in

order to obtain the employer matching contribution. If the employee can afford to make both types of contributions, then both types should be considered.

Amount of Compensation

The amount of an individual's compensation can determine whether an individual can make deductible contributions to a traditional IRA, nondeductible contributions to a Roth IRA, and contributions to an Education IRA. Indeed, contributions to a traditional IRA, whether deductible or not, and contributions to a Roth IRA can generally be made only to the extent of compensation.

A full $2,000 deductible contribution can be made to a traditional IRA if the individual and the individual's spouse are not active participants in an employer retirement plan (assuming compensation of $2,000). (In the case of active participants, the $2,000 amount is subject to phaseout based upon adjusted gross income.) In the case of a joint return of an active participant in an employer retirement plan, a full deductible contribution can be made to a traditional IRA if adjusted gross income is no more than $52,000 (in 2000); and is fully phased out at $62,000. In the case of a joint return where one spouse is an active participant and the other is not, a full deductible contribution can be made to a traditional IRA with respect to the spouse who is not an active participant if adjusted gross income of the couple is no more than $150,000; and is fully phased out at $160,000. In the case of a married filing separate return of an active participant, phaseout of the deductible contribution begins with adjusted gross income of $0; and is fully phased out at $10,000. In the case of a single return or a head of household return of an active participant, a full deductible contribution can be made to a traditional IRA if adjusted gross income is no more than $32,000 (in 2000); and is fully phased out at $42,000.

Up to $2,000 (reduced by contributions to traditional IRAs) can be contributed to a Roth IRA. The $2,000 amount is subject to phaseout based upon modified adjusted gross income (MAGI). For this purpose, modified adjusted gross income means adjusted gross income, except that any amount taken into income from a qualified rollover to a Roth IRA is not taken into account and any deduction for contributions to a traditional IRA is taken into account.

With respect to a Roth IRA: In the case of a joint return, the full $2,000 permissible contribution is available if adjusted gross income is no more than $150,000; and is fully phased out at $160,000. In the case of a married filing separate return, the full $2,000 permissible contribution starts to phaseout with adjusted gross income equal to $0; and is fully phased out at $10,000. In the case of a single return or a head of household return, the full $2,000 permissible contribution is available if modified adjusted gross income is no more than $95,000; and is fully phased out at $110,000.

Nondeductible contributions of up to $2,000 (reduced by deductible contributions made to a traditional IRA) can be made to a traditional IRA (there is no phaseout of this $2,000 amount; however, the $2,000 amount is limited to compensation).

Because distributions from a Roth IRA are generally subject to much more favorable rules than are distributions from a traditional IRA, it is generally advisable to make nondeductible contributions to a Roth IRA rather than nondeductible contributions to a traditional IRA, except to the extent that the individual's permissible contributions to a Roth IRA are phased out by the limitations based on income.

For a discussion of whether to make deductible contributions to a traditional IRA or nondeductible contributions to a Roth IRA, see "Roth IRA vs. Traditional IRA," below.

Up to $500 can be contributed to an Education IRA for an individual by all contributors. The $500 amount is subject to phaseout based upon modified adjusted gross income (MAGI) of the contributor. For this purpose, modified adjusted gross income means adjusted gross income increased by certain amounts excluded from income for citizens or residents living abroad or residents of certain possessions of the United States.

With respect to an Education IRA: In the case of a joint return, the full $500 permissible contribution is available if modified adjusted gross income of the contributor is no more than $150,000; and is fully phased out at $160,000. In all other cases, the full $500 permissible contribution is available if modified adjusted gross income of the contributor is no more than $95,000; and is fully phased out at $110,000.

The $500 contribution amount for Education IRAs and the combined $2,000 amount for contributions to traditional IRAs and Roth IRAs are independent of each other.

Age

The age of the IRA owner affects whether contributions can be made to a particular type of IRA and when distributions are required from a particular type of IRA.

Contributions cannot be made to a traditional IRA once the individual turns age 70½. Contributions to a Roth IRA are not so restricted (however, the individual is required to have compensation in order to make a contribution; so the ability to make contributions after age 70½ may be limited in many cases). Contributions cannot be made to an Education IRA after the beneficiary's 18th birthday.

Distributions must generally begin from a traditional IRA, a SEP IRA (including a SAR-SEP IRA), or a SIMPLE IRA at the earlier of the death of the IRA owner or when the IRA owner turns age 70½. In the case of a Roth IRA, distributions are not required until after the death of the IRA owner. In the case of an Education IRA, the IRA must generally be distributed at the earlier of death or when the beneficiary turns age 30.

Roth IRA vs. Traditional IRA

The discussion here will deal with the issue of whether it is better from a time value of money standpoint to make deductible contributions to a traditional IRA or nondeductible contributions to a Roth IRA. As discussed under "Amount of Compensation," above, it is generally better to make nondeductible contributions to a Roth IRA rather than nondeductible contributions to a traditional IRA.

If the annual deductible amount contributed to the traditional IRA is $2,000 or less and the corresponding amount as reduced by taxes (e.g., $2,000 x .72 = $1,440 in the case of a 28 percent tax bracket and a $2,000 contribution to traditional IRA) is contributed to a Roth IRA, it does not make any difference what the taxpayer's tax bracket is (assuming the tax bracket stays constant); either IRA produces the same results. (It is

assumed, for this purpose, that the Roth IRA will be received tax-free upon distribution.)

For example, if $2,000 is contributed to a traditional IRA, and the $2,000 grows at 10 percent interest for 10 years, the $2,000 will have grown to $5,187 ($2,000 x 2.5937 future value of single sum factor at 10 percent and 10 years, see Appendix B). After taxes of $1,452 ($5,187 x 28%), $3,735 remains. On the other hand if $1,440 [$2,000 x (1 - 28%)] is contributed to a Roth IRA, and the $1,440 grows at 10 percent interest for 10 years, the $1,440 will have grown to $3,735 (1,440 x 2.5937), the same as with a traditional IRA.

If a full $2,000 were to be contributed to the Roth IRA, for comparison purposes, a taxpayer should place an amount equal to the tax deduction for the contribution to a traditional IRA into a side fund which supplements the traditional IRA. For example, with respect to a $2,000 contribution to a traditional IRA, if the taxpayer is in a 28 percent tax bracket, $560 ($2,000 x 28%) is placed into a side fund.

For comparison purposes, if the amount contributed to the Roth IRA is less than $2,000, the traditional IRA is tentatively funded with an amount equal to the amount contributed to the Roth IRA divided by one minus the taxpayer's tax bracket. If the tentative amount is no greater than $2,000, such amount is contributed to the traditional IRA. However, if such tentative amount is greater than $2,000, the traditional IRA is funded with $2,000 and the excess of the tentative amount over $2,000 multiplied by one minus the taxpayer's tax bracket is placed in a side fund. For example, if $1,800 would be placed in a Roth IRA and the taxpayer is in a 28 percent tax bracket, the tentative comparable amount to be placed in the traditional IRA would be $2,500 [$1,800 ÷ (1 - 28%)]. However, only $2,000 can be placed in the traditional IRA, so $360 [($2,500 - $2,000) x (1 - 28%)] would be placed in a side fund.

When the taxpayer maintains a side fund for the tax savings attributable to the deduction for contribution to a traditional IRA, if the taxpayer were in the same tax bracket at time of contribution and at time of distribution and the side fund were not taxable, the traditional and Roth IRA would produce the same results. However, any tax on the side fund reduces the value of the traditional IRA plus side fund combination.

For example, assume a tax rate at time of contribution and at time of distribution equal to 28 percent. If $2,000 is contributed to a Roth IRA, and the $2,000 grows at 10 percent interest for 10 years, the $2,000 will have grown to $5,187 (2,000 x 2.5937 future value of single sum factor at 10 percent and 10 years, see Appendix B). On the other hand, if $2,000 is contributed to a traditional IRA, and the $2,000 grows at 10 percent interest for 10 years, the $2,000 will have grown to $5,187 ($2,000 x 2.5937). After taxes of $1,452 ($5,187 x 28%), $3,735 remains. If $560 (equal to the tax deduction of $2,000 x 28% for the contribution to the traditional IRA) is contributed to a side fund which grows at the same rate and the side fund is not taxable for 10 years, the side fund will grow to $1,452 ($560 x 2.5937). If there were no taxes on the side fund, after 10 years the traditional IRA plus side fund equals $5,187 ($3,735 + $1,452), the same as for the Roth IRA. After taxes of $250 (($1,452 - $560) x 28%), $1,202 remains in the side fund. Combining the traditional IRA with the side fund, $4,937 ($3,735 + $1,202) remains, less than the amount for the Roth IRA.

Any increase in tax rates at the time of distribution as compared to the time of contribution works to the benefit of the Roth IRA. Any decrease in tax rates at the time of distribution as compared to the time of contribution works to the benefit of the traditional IRA plus side fund. However, any decrease in tax rates must still overcome any tax on the traditional IRA's side fund if the traditional IRA plus side fund is to be a better deal than the Roth IRA.

For example, where rates increase, assume a tax rate at time of contribution equal to 28 percent and a tax rate at time of distribution equal to 35 percent. If $2,000 is contributed to a Roth IRA, and the $2,000 grows at 10 percent interest for 10 years, the $2,000 will have grown to $5,187 (2,000 x 2.5937 future value of single sum factor at 10 percent and 10 years, see Appendix B). On the other hand, if $2,000 is contributed to a traditional IRA, and the $2,000 grows at 10 percent interest for 10 years, the $2,000 will have grown to $5,187 ($2,000 x 2.5937). After taxes of $1,815.45 ($5,187 x 35%), $3,371.55 remains. If $560 (equal to the tax deduction of $2,000 x 28% for the contribution to the traditional IRA) is contributed to a side fund which grows at the same rate and the side fund is not taxable for 10 years, the side fund will grow to $1,452 ($560 x 2.5937). If there were no taxes on the side fund, after 10 years the traditional IRA plus side fund equals $4,823.55 ($3,371.55 + $1,452), less

than the amount for a Roth IRA. If the side fund is subject to taxes, there is even less in the traditional IRA plus side fund combination.

For example, where rates decrease, assume a tax rate at time of contribution equal to 28 percent and a tax rate at time of distribution equal to 15 percent. If $2,000 is contributed to a Roth IRA, and the $2,000 grows at 10 percent interest for 10 years, the $2,000 will have grown to $5,187 (2,000 x 2.5937 future value of single sum factor at 10 percent and 10 years, see Appendix B). On the other hand, if $2,000 is contributed to a traditional IRA, and the $2,000 grows at 10 percent interest for 10 years, the $2,000 will have grown to $5,187 ($2,000 x 2.5937). After taxes of $778.05 ($5,187 x 15%), $4,408.05 remains. If $560 (equal to the tax deduction of $2,000 x 28% for the contribution to the traditional IRA) is contributed to a side fund which grows at the same rate and the side fund is not taxable for 10 years, the side fund will grow to $1,452 ($560 x 2.5937). If there were no taxes on the side fund, after 10 years the traditional IRA plus side fund equals $5,860.95 ($4,408.05 + $1,452), more than the amount for a Roth IRA.

If the side fund is subject to a single 28 percent tax, the side fund equals $1,045.44 [$1,452 x (1 - 28%)], the traditional IRA and side fund combination equals $5,453.49 ($4,408.05 + $1,045.44), still more than the amount for a Roth IRA. If the side fund is subject to a single 35 percent tax, the side fund equals $943.80 [$1,452 x (1 - 35%)], the traditional IRA and side fund combination equals $5,351.85 ($4,408.05 + $943.80), still more than the amount for a Roth IRA. If the side fund is subject to a single 50 percent tax, the side fund equals $726.50 [$1,452 x (1 - 50%)], the traditional IRA and side fund combination equals $5,134.55 ($4,408.05 + $726.50), slightly less than the amount for a Roth IRA.

For simplicity's sake, the above examples have shown a single tax on the side fund rather than a yearly, or other periodic, tax. Using a spreadsheet, one could increase the side fund for growth each year and then subtract out whatever tax was assumed to be payable for each year. A shortcut method might be to adjust the growth rate on the side fund to an after-tax rate. For example, if growth is assumed to be 10 percent per year and the income tax rate equal to 28 percent, an after-tax growth rate of 7.2 percent [10% x (1 - 28%)] could be used.

The foregoing examples have demonstrated how to compare a single contribution to a Roth IRA as compared to a single contribution to a traditional IRA with a side fund. Comparisons can also be made of a person making regular contributions year after year for a number of years (such regular payments constitute an annuity stream).

For example, if $2,000 is contributed each year to a traditional IRA for 10 years, and the IRA grows at 10 percent interest for 10 years, the traditional IRA will have grown to $31,874.80 ($2,000 x 15.9374 future value of annuity factor at 10 percent and 10 years, see Appendix B). After taxes of $8,924.94 ($5,187 x 28%), $22,949.86 remains. On the other hand if $1,440 [$2,000 x (1 - 28%)] is contributed to a Roth IRA each year for 10 years, and the IRA grows at 10 percent interest for 10 years, the $1,440 will have grown to $22,949.86 (1,440 x 15.9374), the same as with a traditional IRA.

The foregoing examples have demonstrated how to compare contributions to a Roth IRA as compared to contributions to a traditional IRA with a side fund based upon a single distribution. (Distributions from the Roth IRA have been assumed to be received tax-free, which is generally required for the success of a Roth IRA.) Comparisons can also be made of a person making periodic distributions for a number of years. Making periodic distributions may enable a person to keep income at lower tax rates than if the distribution is made all at once. However, the results above are no different if distributions are made comparably from either a Roth IRA or a traditional IRA with side fund and the tax rate used is appropriate under the circumstances.

The Roth IRA does have one advantage which is likely to be important if the IRA owner has sufficient other assets that the owner does not need to take distributions from the IRA. Required minimum distributions from a Roth IRA can be postponed until after the death of the IRA owner and, generally, the death of the spouse of the IRA owner. However, distributions from a traditional IRA must generally begin when the IRA owner attains age 70½.

CHOOSING THE IRA INVESTMENT VEHICLE

IRAs typically invest in stocks, bonds, money markets, and mutual funds. An IRA account cannot invest in life insurance contracts.[1] The IRA

can be in the form of an individual retirement annuity. Certain investments in collectibles are not permitted.

Money market funds are invested in short term bank and corporate debt, and are essentially a cash equivalent.

Mutual funds can generally be classified by their investment objective: income, balanced, growth and income, growth, and aggressive growth. Income funds consist of fixed income funds that invest in bonds, and equity income funds that invest in stocks, especially preferred stock and blue chip common stocks, for their dividend yields. Balanced funds attempt to achieve some diversification between fixed income and equity investments. Growth and income funds attempt to achieve additional long term growth, with some current income. Growth funds seek long term growth, with little emphasis on income. Aggressive growth funds invest in stock with a high risk/high return focus. Primary research services covering mutual funds include *Morningstar Mutual Fund*, *ValueLine Mutual Fund Survey*, and *CDA/Wiesenberger Mutual Funds*.[2]

An individual retirement annuity is an annuity contract or endowment contract issued by an insurance company meeting certain requirements: (1) the contract cannot be transferable by the owner; (2) the premiums may not be fixed; (3) the annual premium cannot exceed $2,000; (4) any refund of premiums must be applied before the end of the next year to pay future premiums or to purchase additional benefits; (5) the required minimum distribution and minimum incidental death benefit rules apply; and (6) the entire interest of the owner must be nonforfeitable. For this purpose, an endowment contract cannot mature later than the taxable year in which the IRA owner reaches age 70½ and must be for the exclusive benefit of the IRA owner or beneficiary. Aggregate annual premiums for all endowment contracts purchased for the IRA owner cannot exceed $2,000.[3]

However, an individual retirement annuity cannot be an endowment contract issued after November 6, 1978.[4] Also, if the assets of an IRA are used to purchase an endowment contract for the benefit of the individual on behalf of whom the IRA is created, to the extent that the assets are used to purchase life, health, accident, or other insurance, such amounts are treated as distributed.[5] Apparently, such a deemed distribution would not

be subject to the premature distribution penalty tax; however, a technical correction is needed.

In general, IRAs cannot invest in collectibles. The acquisition by an IRA of a collectible is treated as a distribution from the IRA of an amount equal to the cost of the collectible. Collectibles mean works of art, rugs, antiques, metals, gems, stamps, coins, alcoholic beverages, and any other tangible personal property specified by the IRS. Certain coins and bullion are not treated as collectibles: certain gold, silver, or platinum U.S. coins; coins of the various states; and certain gold, silver, platinum, or palladium bullion if the bullion is in the physical possession of the IRA trustee.[6]

Prior to April 30, 1982, certain retirement bonds were issued by the United States.[7] Such bonds can be used in individual retirement plans or redeemed at any time by their holders. Such a redemption would not be subject to the premature distribution penalty tax.

CHOOSING AN IRA TRUSTEE OR CUSTODIAN

An individual cannot be the trustee of an individual retirement account. The trustee must be a bank, a federally insured credit union, a building and loan association, or other person who satisfies requirements of the Internal Revenue Service.[8] A non-bank trustee must demonstrate the following characteristics to the IRS:

- fiduciary ability (including continuity of life, an established place of business in the United States where it is accessible during every business day, fiduciary experience, fiduciary responsibility, and financial responsibility),
- capacity to account for the interests of a large number of individuals,
- fitness to handle retirement funds,
- ability to administer fiduciary powers, and
- adequacy of net worth.[9]

In addition, the non-bank trustee must also provide the following:

- that audits will be conducted by a qualified public account at least once every 12 months,
- that funds will be kept invested as long as reasonable for the proper management of the account,
- that investments will not be commingled with other investments except in a common trust fund and investments will be safely maintained, and
- that separate fiduciary records will be maintained.[10]

An IRA can generally be invested in the form of an individual retirement annuity issued by an insurance company, but not in life insurance contracts (see heading, "Choosing The IRA Investment Vehicle," above). A number of companies rate insurance companies for their claims paying ability.

A.M. Best Company
Ambest Road
Oldwick, NJ 08858
(908)439-2200

Duff & Phelps Credit Rating Co
55 East Monroe Street
Chicago, IL 60603
(312)368-3157

Moody's Investors Service
99 Church Street, 2nd Floor
New York, NY 10007
(212)553-0377

Standard & Poor's
Insurance Rating Services
25 Broadway
New York, NY 1004
(212)208-1527

Weiss Ratings Inc..
P.O. Box 109665
Palm Beach Gardens. FL 33410
(800)289-9222

CHAPTER ENDNOTES

1. IRC Sec. 408(a)(3).
2. For an in-depth discussion of how to evaluate mutual funds, see *The Mutual Fund Handbook*, 2nd ed., by Spring Bixby Leonard and April Kestel Caudill, published by the National Underwriter Company, 1999.
3. IRC Secs. 408(b), 408A(a).
4. Reg. §1.408-3(e)(1)(ix).
5. IRC Sec. 408(e)(5).
6. IRC Sec. 408(m).

7. IRC Sec. 409, as in effect prior to TRA '84.
8. IRC Secs. 408(a)(2), 408(n).
9. Regs. §§1.408-2(b)(2), 1.408-2(e).
10. Ibid.

Chapter 10

SPECIAL PURPOSE PLANNING

This chapter discusses planning for education with IRAs, planning for the purchase of a home with IRAs, planning for retirement with IRAs, planning for spouses with IRAs, and dynasty planning with IRAs.

For a discussion of various issues or factors in selecting an IRA, see Chapter 9.

PLANNING FOR EDUCATION WITH IRAS

Education IRAs are designed specifically on a tax-favored basis to provide for payment of education expenses. The tax-deferred nature of earnings within other IRAs can also be used to provide for payment of education expenses. There are a wide variety of tax-favored vehicles other than IRAs which are designed specifically for payment of education expenses.

There are a couple of reasons why an Education IRA seems ideal for education planning, especially for college planning. Amounts earned within an Education IRA generally accumulate on a tax-deferred basis and earnings from an Education IRA are generally not taxable when distributed and used to pay qualified education expenses. Furthermore, the beneficiary of an Education IRA need not have any compensation in order for contributions to be made to the Education IRA.

However, only $500 can be contributed to all Education IRAs for the benefit of a beneficiary in any year. Furthermore, such contributions cannot be made after the beneficiary's 18th birthday. Therefore, the amount which can be contributed to an Education IRA is very limited.

For example, if $500 annual contributions are made to an Education IRA for a child from birth to age 18, only $9,000 ($500 x 18) can be contributed to the IRA. At a 5 percent interest rate, the account balance

will have grown to about $14,000 by the time the child starts college at age 18. At 8 percent interest, the account balance will grow to over $18,000.

Distributions from a Roth IRA are treated as being made from contributions first and thereafter from earnings. Contributions can be withdrawn tax-free from a Roth IRA. Therefore, a child with compensation could contribute to a Roth IRA for education purposes. When the time to withdraw for college came, the child could withdraw the contributions from the Roth IRA first, and then withdraw earnings thereafter. The earnings would grow on a tax-deferred basis until distributed, even if the distribution of earnings from the Roth IRA did not qualify as a qualified distribution excludable from income. Furthermore, amounts withdrawn from an IRA are not subject to the premature distribution penalty tax (see next paragraph) if used for payment of qualified higher education expenses.

Distributions from an IRA made prior to age 59½ are generally subject to a 10 percent premature distribution penalty to the extent includable in income unless an exception applies. However, an exception includes distributions made to the IRA owner for payment of qualified higher education expenses furnished to the IRA owner, the IRA owner's spouse, or children or grandchildren of either.

Similarly, a child with compensation could contribute deductible contributions to a traditional IRA. The child gets an immediate tax deduction which can be put to work, possibly on a tax-deferred basis within the traditional IRA (or possibly in a side fund, where the contribution to the traditional IRA is maximized). Indeed, all earnings within the traditional IRA would grow on a tax-deferred basis until distributed. However, distributions from a traditional IRA with only deductible contributions are fully includable in income. However, amounts withdrawn from an IRA are not subject to the premature distribution penalty tax if used for payment of qualified higher education expenses.

There are a wide variety of other tax-favored ways to plan for education without using an IRA. These include: the Hope Scholarship Credit, the Lifetime Learning Credit, qualified state tuition programs, the deduction for payment of interest on student loans, and the exclusion from income for certain interest earned on qualified United States savings bonds used to pay qualified higher education expenses.[1]

PLANNING FOR THE PURCHASE OF A HOME WITH IRAS

Among other features, Roth IRAs are designed specifically on a tax-favored basis to provide for the purchase of a first home. The tax-deferred nature of earnings within Roth and other IRAs can also be used to provide for the purchase of a home.

A qualified distribution from a Roth IRA is excludable from income. A qualified distribution is a distribution from a Roth IRA that is made after the five-taxable year period beginning in the year in which the first contribution was made to a Roth IRA and includes (among others) a distribution that is made to the Roth IRA owner ($10,000 lifetime limit) for the purchase of a first home by the IRA owner, the IRA owner's spouse, or children, grandchildren, or ancestor of either.

Distributions from a Roth IRA are treated as being made from contributions first and thereafter from earnings. Contributions can be withdrawn tax-free from a Roth IRA. Therefore, a person with compensation could contribute to a Roth IRA for future purchase of a home. When the time came to withdraw for the purchase of a home, the person could withdraw the contributions from the Roth IRA first, and then withdraw earnings thereafter. The earnings would grow on a tax-deferred basis until distributed, even if the distribution of earnings from the Roth IRA did not qualify as a qualified distribution excludable from income. Furthermore, within limitations, amounts withdrawn from an IRA are not subject to the premature distribution penalty tax (see next paragraph) if used for purchase of a first home.

Distributions from an IRA made prior to age 59½ are generally subject to a 10 percent premature distribution penalty to the extent includable in income unless an exception applies. However, an exception includes distributions made to the IRA owner ($10,000 lifetime limit) for the purchase of a first home by the IRA owner, the IRA owner's spouse, or children, grandchildren, or ancestor of either.

Note that this exemption from the premature distribution penalty applies to more than Roth IRAs; for example, it also applies to traditional, SEP, and SIMPLE IRAs. Also, the exemption from the premature distribution penalty applies to a Roth IRA even if the distribution from the Roth IRA is not a qualified distribution exempt

from income (e.g., a distribution made within five years of the first contribution to a Roth IRA).

Similarly, a person with compensation could contribute deductible contributions to a traditional IRA. The person gets an immediate tax deduction that can be put to work, possibly on a tax-deferred basis within the traditional IRA (or possibly in a side fund, where the contribution to the traditional IRA is maximized). Indeed, all earnings within the traditional IRA would grow on a tax-deferred basis until distributed. However, distributions from a traditional IRA with only deductible contributions are fully includable in income. However, within limitations, amounts withdrawn from an IRA are not subject to the premature distribution penalty tax if used for the purchase of a first home.

PLANNING FOR RETIREMENT WITH IRAS

Some people may actually wish to use an IRA for retirement needs. Despite the many new provisions for IRAs such as for education, first time home purchase, and more, the "R" in IRAs does stand for retirement.

The taxation of distributions is always a concern, especially at retirement. A person seeking to retire early may need to plan around the premature distribution penalty tax. The required minimum distribution penalty is a concern at older ages.

Distributions from a traditional IRA, a SEP IRA, or a SIMPLE IRA are includable in income on a prorated basis to the extent that the distribution is made from deductible contributions or earnings from the IRA. If nondeductible contributions have not been made to such an IRA, distributions are fully includable in income.

A qualified distribution from a Roth IRA is excludable from income. A qualified distribution is a distribution from a Roth IRA that is made after the five-taxable year period beginning in the year in which the first contribution was made to a Roth IRA and that is (1) made on or after the date the Roth IRA owner turns 59½; (2) made after the death of the Roth IRA owner; (3) attributable to disability of the Roth IRA owner; or (4) made to the Roth IRA owner ($10,000 lifetime limit) for the purchase of a first home by the IRA owner, the IRA owner's spouse, or children, grandchildren, or ancestor of either.

Otherwise, distributions from a Roth IRA are includable in income except to the extent that the distribution is made from contributions. Distributions from a Roth IRA are treated as made first from contributions and then from earnings.

If the Roth IRA owner is 59½, distributions are generally received tax-free. Even if the Roth IRA owner is less than 59½ and the owner is not disabled, the owner can still withdraw contributions tax-free. If earnings are then withdrawn after 59½, such earnings could generally be received tax-free at such time.

In the case of an Education IRA, the IRA must generally be distributed at the earlier of death or when the beneficiary turns age 30. Therefore, an Education IRA is not really a retirement vehicle.

A person seeking to retire before age 59½ and take distributions from his IRA must plan around the premature distribution penalty tax. A distribution from an IRA prior to the IRA owner reaching age 59½ is subject to a 10 percent premature distribution penalty tax to the extent the distribution is includable in income (see above) unless an exception applies. In general, the premature distribution penalty does not apply to distributions:

(1) made after age 59½;

(2) to a beneficiary or the individual's estate, made on or after the death of the individual;

(3) attributable to the individual's disability;

(4) which are part of a series of substantially equal periodic payments;

(5) made for medical care, to the extent that the payment for medical care would be deductible (i.e., such expenses are deductible only to the extent in excess of 7.5 percent of adjusted gross income) without regard as to whether the individual itemizes deductions;

(6) made by an unemployed individual for the payment of health insurance premiums;

(7) made to pay qualified higher education expenses; and

(8) made for first-time homebuyers.

Unless the person is disabled, the primary means for a person seeking to retire before age 59½ while taking distributions from his IRA and avoiding the premature distribution penalty tax is to take distributions which are part of a series of substantially equal periodic payments made (at least annually) for the life or the life expectancy of the individual or for the lives or the life expectancies of the individual and the individual's designated beneficiary. (As noted above, distributions of contributions from a Roth IRA can be another useful strategy for taking distributions before age 59½.) If the series of substantially equal periodic payments are modified (other than by reason of death or disability) before the individual reaches age 59½, or after the individual reaches age 59½ if within five years of the first payment, the premature penalty tax which would have applied except for the exemption plus interest for the deferral period is added to tax in the year of the modification.

The IRS has approved three methods for calculating substantially equal periodic payments. They are discussed in detail in Chapter 13.

In selecting a substantially equal periodic payment method to use, it is often useful to select the method which comes closest to withdrawing from the IRA the amount that is desired. The required minimum distribution method must be recalculated each year, whereas the amortization and annuitization methods need to be calculated only once.

Distributions must generally begin from a traditional IRA, SEP IRA (including a SAR-SEP IRA), or SIMPLE IRA at the earlier of the death of the IRA owner or when the IRA owner turns age 70½. In the case of a Roth IRA, distributions are not required until after the death of the IRA owner (which includes the spouse of the original Roth IRA owner where the surviving spouse is the designated beneficiary and elects to treat the Roth IRA as the spouse's own). These rules are generally referred to as the required minimum distribution rules and are discussed in detail in Chapter 13. A 50 percent penalty applies to the extent a required minimum distribution is not made.

Required minimum distributions are generally calculated in ways designed to cause an IRA to be distributed during the lifetime of the IRA owner or the lifetime of the IRA owner and a designated beneficiary. However, the required minimum distribution methods do not provide for level payments.

An IRA owner who wishes reasonably level payments may wish to annuitize distributions. This can be done (1) by using an individual retirement annuity or (2) by making distributions equal to the greater of the required minimum distribution amount or an annuitized amount (taking out more than the required minimum distribution is generally acceptable; taking out less is not). In the annuitized distribution method, the annuitized amount could be periodically adjusted (the required minimum distribution calculation is adjusted every year to reflect the account balance at the beginning of the year) to reflect the actual experience of the IRA plan. For an example of making annuitized distributions, see Chapter 13.

PLANNING FOR SPOUSES WITH IRAS

Where the IRA owner has a spouse, it is often useful to plan around that spouse. For one, a person's spouse is typically the most important person that a married person wishes to provide for. Also, special income tax provisions are available when the beneficiary is the spouse of the IRA owner. Similarly, an estate tax deduction is generally available if the IRA passes to the spouse of the IRA owner. And special income and gift tax provisions may be available in case of divorce.

The ability to make a contribution to a traditional IRA or a Roth IRA depends on the IRA owner having compensation. Special rules apply to married individuals, or more specifically to an individual who files a joint return for the year where the individual's compensation includable in income for the year is less than the compensation includable in income for the year by the individual's spouse. In such case, contributions are generally allowed to be made for an individual with little or no compensation by taking into account the compensation of such individual's spouse.

Where the spouse of the IRA owner is named as the beneficiary of the IRA, after the IRA owner's death the spouse can usually elect to treat the IRA as her own for income tax purposes. The election is usually made

whenever required minimum distributions can be postponed further by making the election. For example, a spouse who elects to treat the IRA owner's account as the spouse's own could postpone distributions from the IRA until after the spouse reaches age 70½, in the case of a traditional IRA, a SEP IRA, or SIMPLE IRA, or until after the spouse's death in the case of a Roth IRA. Furthermore, the life expectancy of the spouse and a beneficiary could be used rather than the life expectancy of the IRA owner and beneficiary.

Also, where the spouse of the IRA owner is named as the beneficiary of the IRA and the IRA owner dies before reaching age 70½, the spouse can postpone receiving required minimum distributions until after the IRA owner would have reached age 70½. This rule can generally be taken advantage of where the IRA owner was younger than the spouse.

Where the spouse of the IRA owner is named as the beneficiary of the IRA, the IRA can usually be made to qualify for the estate tax marital deduction. A marital deduction trust could also be the beneficiary of the IRA. Where a marital deduction trust is used, the IRA should generally provide for distributions (at least annually) to the trust equal to at least the greater of income on the undistributed IRA (for marital deduction purposes) or the required minimum distribution and the marital deduction trust should generally provide for distributions to the spouse of all trust income. See Chapter 17.

The effect of using a traditional IRA, SEP IRA, or SIMPLE IRA to fund the marital deduction is generally to create a wasting asset. As the IRA is distributed to the spouse, the spouse is required to pay income taxes. Therefore, the amount remaining at the spouse's death which is subject to estate tax has been reduced by the income tax paid by the spouse.

Where a credit shelter trust is named as the beneficiary of the IRA, the spouse will usually not be given an interest sufficient to allow the spouse to treat the IRA as her own. (The spouse may be given the right to distributions of income, and a limited withdrawal right.) Therefore, if required minimum distributions began before the IRA owner died, distributions after death must generally continue at least as rapidly as before death. If required minimum distributions did not begin before the IRA owner died, distributions must generally be made over the life expectancy of the oldest beneficiary of the credit shelter trust (who is often the spouse).

If an interest in an IRA is transferred from one spouse to the other in connection with a divorce or separation, a gift may be made. However, a transfer of property to either spouse in settlement for his or her marital or property rights or for child support shall be deemed made for full and adequate consideration in money or money's worth if: (1) the transfer is made pursuant to a written agreement between the husband and wife, and (2) divorce occurs within the three-year period beginning on the date one year before the agreement is entered into. Under this statutory provision, it is immaterial whether the agreement is approved by the divorce decree.[2]

Also, the transfer of an IRA from one spouse to the other in connection with a divorce or separation is generally not considered a taxable transfer for income tax purposes. The spouse to whom the IRA is transferred is thereafter treated as the IRA owner.[3]

DYNASTY PLANNING WITH IRAS

Dynasty planning is generally thought of as passing interests in property, generally in a trust, down through generations while minimizing the taxes, especially the transfer taxes (gift tax, estate tax, and generation-skipping transfer tax) on the property. The ability to do dynasty planning with IRAs is sometimes compromised by the required minimum distribution rules.

In dynasty planning the object is generally to give as many interests as possible to as many generations as is possible while minimizing exposure to transfer tax at each level. Dynasty plans with trusts are often made to last as many generations as possible, limited generally only by the rule against perpetuities. In general, the rule against perpetuities requires that interests vest no later than a life in being plus 21 years. The rule against perpetuities has even been eliminated in a few states.

Distributions must generally begin from a traditional IRA, SEP IRA (including a SAR-SEP IRA), or SIMPLE IRA at the earlier of the death of the IRA owner or when the IRA owner turns age 70½. In the case of a Roth IRA, distributions are not required until after the death of the IRA owner (which includes the spouse of the original Roth IRA owner where the surviving spouse is the designated beneficiary and elects to treat the Roth IRA as the spouse's own). These rules are generally referred to as the required minimum distribution rules and are discussed in detail in Chapter

13. A 50 percent penalty applies to the extent a required minimum distribution is not made.

In the case of an Education IRA, the IRA must generally be distributed at the earlier of death or when the beneficiary turns age 30. While there is no penalty for failure to make the distribution from the Education IRA, the Education IRA will be deemed distributed (and thus taxable) and the Education IRA deemed terminated at the earlier of death or when the beneficiary turns age 30. The required distribution when a beneficiary dies or reaches age 30 can be avoided by naming a new beneficiary who is a member of the original beneficiary's family and is under 30 years of age.

Thus distributions from a traditional IRA, SEP IRA (including a SAR-SEP IRA), or SIMPLE IRA must generally be made for the life expectancy of the IRA owner and a designated beneficiary starting at the earlier of the death of the IRA owner or when the IRA owner turns age 70½. If there is more than one beneficiary, the oldest beneficiary's age is used. Furthermore, while the IRA owner (other than the owner of a Roth IRA) is alive, a beneficiary other than the spouse of the IRA owner is generally treated as being no more than 10 years younger than the IRA owner. In the case of a Roth IRA, distributions must generally be made for the life expectancy of a designated beneficiary starting at the death of the IRA owner. If the spouse of the IRA owner is the designated beneficiary, the spouse can elect to treat the IRA as the spouse's own; the required minimum distribution rules would then be applied as if the spouse is the IRA owner.

Required minimum distributions must be made or a 50% penalty tax applies. Even though required minimum distributions must generally be paid to the trust, the trust is not generally required to make distributions from the trust of the required minimum distributions. Whether distributions from the trust are required generally depend on the trust document and state law. Note that if income is required to be distributed from the trust, the IRA distributions to the trust generally consist of both income and principal.

It is possible to move an IRA down generations with a dynasty trust. With a dynasty trust, distributions can generally be sprayed around to many different beneficiaries and generations as is typically done in dynasty planning. However, the IRA must, in general, be distributed to the

trust generally within a time period limited to the beneficiary's life expectancy. And as noted above, in the case of multiple beneficiaries the oldest beneficiary's age is used. This requirement could conflict with the desire to have older generations as potential beneficiaries.

Multiple IRAs with different beneficiaries can reduce the problem with the oldest beneficiary's life being used for required minimum distribution purposes, but generally with a reduction in flexibility of spraying benefits. However, use of separate IRAs with separate trusts can also facilitate use of the generation-skipping transfer tax annual exclusion. A typical dynasty trust often relies on use of the generation-skipping transfer tax exemption rather than the annual exclusion, because of the separate share requirements for the annual exclusion.

Multiple IRAs with separate trusts can also facilitate allocations of the generation-skipping transfer tax exemption. The exemption could be allocated to trusts with potential generation-skipping transfers (e.g., trust for grandchildren), but not to trusts with no generation-skipping potential (e.g., trust for children). Similarly, distributions from trusts to which the exemption has been allocated could be made to skip persons (e.g., grandchildren) while distributions from trusts to which no exemption has been allocated could be made to nonskip persons (e.g., children).

It may also be useful to move IRAs down generations by giving a child with a small estate a general power of appointment to appoint the IRA (or perhaps a power to appoint a trust to which the IRA is payable) to the child's estate or to children of the child (or perhaps to a trust). The IRA owner does not need to allocate the generation-skipping transfer tax exemption to the transfer to the child because the child is not a skip person. The IRA (or trust) is included in the child's estate but the child's estate is small enough so that there is no estate tax. The IRA (or trust) then passes to the IRA owner's grandchildren without the need for allocation of the generation-skipping transfer tax exemption to the transfer because the children of the IRA owner's child are not skip persons relative to the IRA owner's child (the transferor at child's death).

Therefore the ability to do dynasty planning with IRAs must sometimes weigh the ability to prolong distributions under the required minimum distribution rules with a somewhat reduced flexibility to spray distributions.[4]

Dynasty planning will often use reverse QTIP trusts. The effect of making the reverse QTIP election is generally to have the decedent (rather than the surviving spouse) treated as the transferor for generation-skipping purposes. Such an election would generally be used to insure that a decedent's GST exemption was not wasted.

Example. In 2000, decedent with a $2,060,000 estate leaves $675,000 in a credit shelter trust and $1,385,000 to his surviving spouse in a QTIP trust, reducing his taxable estate to zero. [Assume each trust would be subject to GST tax to the extent that the $1,030,000 (as indexed for 2000) exemption is not allocated to such trust.] The executor allocates $675,000 of the decedent's $1,030,000 GST tax exemption to the credit shelter trust and makes a reverse QTIP election as to $355,000 of the QTIP property so that the decedent's full $1,030,000 exemption can be used. The surviving spouse's $1,030,000 exemption amount may then be used to protect the remaining $1,030,000 of property, and the entire $2,060,000 has escaped GST tax (assuming separate QTIP trusts of $1,030,000 and $355,000 are created).

For more on the generation-skipping transfer tax, see Chapter 18.

CHAPTER ENDNOTES

1. See *Tax Facts 1* and *Tax Facts 2*, published annually by The National Underwriter Company, for the taxation of such other tools that can be used in planning for education. See also *A Professional's Guide to College Planning*, by Raymond D. Loewe, published by The National Underwriter Company.
2. IRC Sec. 2516.
3. IRC Secs. 408(d)(6), 530(d)(7).
4. For more on dynasty trusts, see *The Trust Handbook*, by William J. Wagner, published by The National Underwriter Company.

Chapter 11

ROLLOVERS

Rollovers are permitted between qualified plans, IRAs, and tax sheltered annuities. In general, a rollover is a transfer of retirement assets from one plan to another by the participant or owner that is completed within 60 days. The effect of a rollover is generally to avoid taxes and penalties upon what otherwise would be treated as a distribution. The rolled over amounts are then generally subject to the rules of the plan to which rolled over.[1]

Required minimum distributions (see Chapter 13, generally) from a qualified plan, tax sheltered annuity or IRA cannot be rolled over.[2]

Only one rollover is permitted from a particular IRA to any other IRA during the one-year period ending with the transfer from the first IRA. The Code appears to limit a taxpayer to one rollover from all of the taxpayer's IRAs in any one-year period.[3] However, proposed regulations would treat each IRA as separate and permit one rollover from a particular IRA during the one-year period ending with the transfer from such IRA. For example, a rollover could be made from IRA 1 to IRA 3 and another rollover from IRA 2 to IRA 3, even though the rollover from IRA 2 to IRA 3 occurred within one year after the rollover from IRA 1.[4] However, an IRS publication states that a rollover cannot then be made from IRA 3 during the one-year period.[5] Similarly, one court case held that where IRA 1 was rolled over to IRA 2, a rollover was not permitted from IRA 2 during the one-year period after the rollover from IRA 1 to IRA 2.[6]

Direct trustee-to-trustee transfers are not treated as rollovers for purpose of the one rollover per year requirement. A rollover from a traditional, SEP, or SIMPLE IRA to a Roth IRA does not count as a rollover for this purpose.[7]

A rollover from any traditional, SEP or SIMPLE IRA to a Roth IRA is a conversion subject to tax. See Chapter 12.

The distributee of a qualified plan, tax sheltered annuity, or IRA has only 60 days after a distribution to complete a rollover.[8] The 60-day period (1) does not include any period during which the amount transferred to the employee is in a frozen deposit, and (2) does not end earlier than 10 days after the amount ceases to be frozen. A frozen deposit means the distributee is unable to withdraw the property to be rolled over because the property is deposited in an institution in bankruptcy or insolvency.[9]

QUALIFIED PLANS AND TAX SHELTERED ANNUITIES

The only rollover permitted from a qualified plan or tax sheltered annuity to an IRA is to a traditional IRA. (Rollover of a qualified plan or tax sheltered annuity to a Roth IRA can be accomplished indirectly by first rolling the qualified plan or tax sheltered annuity to a traditional IRA and then rolling the traditional IRA over to a Roth IRA.) A separately maintained traditional IRA can be used as a conduit IRA to later transfer assets back to the same or another qualified plan or to the same or another tax sheltered annuity. Otherwise, no rollover is permitted from an IRA to a qualified plan or tax sheltered annuity.[10]

Amounts rolled over from a qualified plan or tax sheltered annuity are subject to 20 percent withholding unless the rollover is made through a direct trustee-to-trustee transfer.[11]

The following cannot be rolled over from a qualified plan or tax sheltered annuity:

(1) amounts that would not be includable in income if distributed from the qualified plan or tax sheltered annuity (i.e., nondeductible employee contributions);

(2) payments that are part of a series of substantially equal periodic payments for the life (or life expectancy) of the employee or the lives (or joint life expectancy) of the employee and a designated beneficiary, or for a specified period of 10 years or more;

(3) required minimum distributions from the qualified plan or tax sheltered annuity; and

Figure 11.1

IRA Rollovers[1]

From —>	To	From —>	To
traditional IRA (a conduit IRA[2])	qualified plan		traditional IRA
traditional IRA (a conduit IRA[3])	tax-sheltered annuity		traditional IRA
traditional IRA, SEP IRA, SIMPLE IRA[4]	traditional IRA		traditional IRA, Roth IRA, SEP IRA
traditional IRA, SEP IRA, SIMPLE IRA[4] (in a qualified rollover[5]); Roth IRA	Roth IRA		Roth IRA
Education IRA	Education IRA		Education IRA
traditional IRA, SEP IRA, SIMPLE IRA[4]	SEP IRA		traditional IRA, Roth IRA, SEP IRA
SIMPLE IRA[4]	SIMPLE IRA[4]		traditional IRA, Roth IRA, SEP IRA, SIMPLE IRA

[1] Only one rollover is permitted from a particular IRA to any other IRA during the one-year period ending with the transfer from the first IRA. Direct trustee-to-trustee transfers are not treated as rollovers for this purpose.
[2] A separately maintained traditional IRA can be used as a conduit IRA to later transfer assets back to the same or another qualified plan.
[3] A separately maintained traditional IRA can be used as a conduit IRA to later transfer assets back to the same or another tax sheltered annuity.
[4] A rollover is not permitted from a SIMPLE IRA to any other type of IRA during the first two years that the individual participates in the SIMPLE IRA.
[5] A qualified rollover is a taxable event and special provisions apply (see Chapter 5).

(4) hardship distributions from a 401(k) plan or tax sheltered annuity after 1998.[12]

A transitional rule permits certain hardship distributions to be rolled over in 1999.[13]

Note that the rule for required minimum distributions from qualified plans and tax sheltered annuities differs from the general rule for IRAs: required minimum distributions from qualified plans and tax sheltered annuities can generally be postponed until the later of retirement or attainment of age 70½.

In addition, the following cannot be rolled over from a qualified plan or tax sheltered annuity:

(1) the P.S. 58 cost of life insurance;

(2) loans that are treated as deemed distributions under Section 72(p);

(3) dividends paid on employer securities under Section 404(k); and

(4) corrective distributions of excess contributions or deferrals.[14]

Life insurance contracts cannot be rolled over to a traditional IRA account; an IRA account is not permitted to invest in a life insurance contract.[15]

In general, an IRA that is inherited from another by other than the surviving spouse cannot receive a rollover or be rolled over.[16]

Amounts rolled over from a qualified plan to a traditional IRA can generally be rolled back to a qualified plan if the rolled over amount was maintained in a traditional IRA to which no other amounts have been contributed or rolled over.[17] Similarly, amounts rolled over from a tax sheltered annuity to a traditional IRA can generally be rolled back to a tax sheltered annuity if the rolled over amount was maintained in a traditional IRA to which no other amounts have been contributed or rolled over.[18] In other words, a separately maintained IRA can be used as a conduit IRA to later transfer assets back to the same or another qualified plan or to the same or another tax sheltered annuity.

After the death of an employee, a surviving spouse can roll over a distribution from a qualified plan to an IRA, but cannot roll over the distribution to a qualified plan or use an IRA as a conduit IRA to later

transfer assets back to the same or another qualified plan.[19] However, a spouse or former spouse who receives a distribution as an alternate payee pursuant to a qualified domestic relations order can roll over the distribution to an IRA or a qualified plan.[20] It would appear that similar rules should apply to distributions from tax sheltered annuities to surviving spouses and alternate payee spouses, but technical corrections are needed.[21]

TRADITIONAL IRAS

Rollovers are permitted between traditional IRAs.[22]

Only one rollover is permitted from a particular IRA to any other IRA during the one-year period ending with the transfer from the first IRA.[23] Direct trustee-to-trustee transfers are not treated as rollovers for this purpose. Neither does a rollover from a traditional IRA to a Roth IRA count as a rollover for this purpose.[24]

In general, an IRA that is inherited from another by other than the surviving spouse cannot receive a rollover or be rolled over.[25]

ROTH IRAS

A rollover from a Roth IRA can be made only to another Roth IRA. Therefore, rollovers are not permitted from a Roth IRA to any other type of IRA. If a traditional IRA, SIMPLE IRA, or SEP IRA is rolled over to a Roth IRA (a qualified rollover, or conversion), it is a taxable event and special provisions apply.[26] See Chapter 12. Rollover of a qualified plan or a tax sheltered annuity to a Roth IRA can be accomplished indirectly by first rolling the qualified plan or tax sheltered annuity to a traditional IRA and then rolling the traditional IRA over to a Roth IRA.

In general, an IRA that is inherited from another by other than the surviving spouse cannot receive a rollover or be rolled over.[27]

EDUCATION IRAS

An Education IRA can be rolled over to another Education IRA for the benefit of the same or another beneficiary. The new beneficiary must be a member of the family of the old beneficiary and must not have attained age 30. Apparently, no other rollover to or from an Education IRA is permitted.[28]

TRADITIONAL IRA AND SEP IRA

Rollovers are permitted between a traditional IRA and a SEP IRA.[29]

Only one rollover is permitted from a particular IRA to any other IRA during the one-year period ending with the transfer from the first IRA.[30] Direct trustee-to-trustee transfers are not treated as rollovers for this purpose. A rollover from a SEP IRA to a Roth IRA does not count as a rollover for this purpose.[31]

In general, an IRA that is inherited from another by other than the surviving spouse cannot receive a rollover or be rolled over.[32]

SIMPLE IRAS

A rollover is not permitted from a SIMPLE IRA to any other type of IRA during the first two years that the individual participates in the SIMPLE IRA. A 25 percent premature distribution penalty applies to any amount received from a SIMPLE IRA during the first two years that the individual participates in the SIMPLE IRA.[33] After the individual has participated for two years in the SIMPLE IRA, rollovers can be made from the SIMPLE IRA to traditional IRAs, Roth IRAs, SEP IRAs, and SIMPLE IRAs.[34] The only rollover permitted to a SIMPLE IRA is from another SIMPLE IRA. Therefore, rollovers are not permitted from any other type of IRA to a SIMPLE IRA.

Only one rollover is permitted from a particular IRA to any other IRA during the one-year period ending with the transfer from the first IRA.[35] Direct trustee-to-trustee transfers are not treated as rollovers for this purpose. Neither does a rollover from a SIMPLE IRA to a Roth IRA count as a rollover for this purpose.[36]

In general, an IRA that is inherited from another by other than the surviving spouse cannot receive a rollover or be rolled over.[37]

CHAPTER ENDNOTES

1. See IRC Secs. 402(c), 403(b)(8), 408(d)(3), 408A(c)(6).
2. IRC Secs. 402(c)(4)(B), 403(b)(8), 408(d)(3)(E).
3. IRC Secs. 408(d)(3)(B), 408A(a).
4. Prop. Reg. §1.408-4(b)(4)(ii).

5. IRS Pub. 590.
6. *Martin v. Comm.*, TC Memo 1992-331.
7. IRC Sec. 408A(e).
8. IRC Secs. 402(c)(3), 403(b)(8), 408(d)(3).
9. IRC Secs. 402(c)(7), 403(b)(8), 408(d)(3)(F).
10. IRC Secs. 408(d)(3)(A)(ii), 408(d)(3)(A)(iii), 402(c), 403(b)(8).
11. IRC Sec. 3405(c).
12. IRC Secs. 402(c)(4), 403(b)(8).
13. Notice 99-5, 1999-3 IRB 10.
14. Reg. §1.402(c)-2(A-4).
15. IRC Sec. 408(a)(3).
16. IRC Sec. 408(d)(3)(C).
17. IRC Sec. 408(d)(3)(A)(ii).
18. IRC Sec. 408(d)(3)(A)(iii).
19. IRC Sec. 402(c)(9); Reg. §1.402(c)-2(A-12).
20. IRC Sec. 402(e)(1); Reg. §1.402(c)-2(A-12).
21. See IRC Sec. 403(b)(8)(C) prior to amendment by the Unemployment Compensation Act of 1992.
22. IRC Sec. 408(d)(3).
23. IRC Sec. 408(d)(3)(B).
24. IRC Sec. 408A(e).
25. IRC Sec. 408(d)(3)(C).
26. IRC Secs. 408A(d)(3), 408A(c)(6), 408A(e).
27. IRC Sec. 408(d)(3)(C).
28. IRC Sec. 530.
29. IRC Sec. 408(d)(3).
30. IRC Sec. 408(d)(3)(B).
31. IRC Sec. 408A(e).
32. IRC Sec. 408(d)(3)(C).
33. IRC Sec. 72(t)(6).
34. IRC Sec. 408(d)(3)(G).
35. IRC Sec. 408(d)(3)(B).
36. IRC Sec. 408A(e).
37. IRC Sec. 408(d)(3)(C).

Chapter 12

CONVERSIONS

A traditional, SEP, or SIMPLE IRA can be converted into a Roth IRA if certain conditions are met. A conversion also includes a rollover from a traditional, SEP, or SIMPLE IRA to a Roth IRA. However, unlike the usual situation with rollovers, a conversion to a Roth IRA is a taxable event. Within certain limitations, a Roth IRA can be recharacterized back into the IRA type from which it was converted and then reconverted to a Roth IRA at a later time.

The only conversions permitted to a Roth IRA are from Roth IRAs, traditional IRAs, SEP IRAs, and SIMPLE IRAs. However, a rollover is not permitted from a SIMPLE IRA to any other IRA including a Roth IRA during the first two years that the individual participates in the SIMPLE IRA.

An indirect conversion from qualified plans and tax sheltered annuities may be accomplished through a rollover to a traditional IRA (see Chapter 4) followed by a conversion of the traditional IRA to a Roth IRA.

Rollovers to or from an Education IRA are permitted only from or to another Education IRA. Therefore, an Education IRA cannot be converted to a Roth IRA.

Rollovers are permitted between qualified plans, IRAs, and tax sheltered annuities (see Chapter 11). In general, a rollover is a transfer of retirement assets from one plan to another by the participant or owner that is completed within 60 days of the distribution. The effect of a rollover is generally to avoid taxes and penalties upon what otherwise would be treated as a distribution. However, any rollover from an IRA other than a Roth IRA to a Roth IRA is a taxable event. The term conversion, as used in this chapter, will include rollovers to a Roth IRA.[1]

A rollover from a Roth IRA can be made only to another Roth IRA. Such a rollover is not a taxable event.

In general, conversions to a Roth IRA are accomplished either by (1) having the trustee of the first IRA transfer IRA property directly to the trustee of the second IRA, (2) having the trustee of the first IRA distribute the IRA property to the IRA owner who then transfers (rolls over) the IRA property to the trustee of the second IRA within 60 days of the distribution from the first IRA, or (3) simply converting the other IRA into a Roth IRA.[2]

An individual can generally convert an amount in one of these other IRAs to a Roth IRA unless the individual's adjusted gross income for the year exceeds $100,000 or the individual is married and files a separate return. For tax years after 2004, adjusted gross income will not include any required minimum distributions (see Chapter 13) for purposes of the $100,000 limitation. The primary reason for doing such a conversion is to obtain the benefit of the generally more favorable rules for distributions from a Roth IRA. The price of making such a conversion to a Roth IRA is that the amount in the other IRA is treated as distributed from the other IRA for income tax purposes. For conversions in 1998, the amount otherwise includable in income could be included in income over a four-year period.[3]

Thus, if a traditional IRA, SEP IRA, or SIMPLE IRA is converted to a Roth IRA, the amount distributed from the other IRA is includable in income for the year of distribution under the rules for such other IRA. However, the premature distribution penalty tax does not apply to such distribution. Nevertheless, the premature distribution rule will apply to any distribution from the Roth IRA made within the five-year period starting with the year of the conversion if the distribution is allocable to the qualified rollover contribution.

If a conversion occurred in 1998, the IRA owner could elect to include the amount includable in income from the conversion ratably over the four-year period from 1998 to 2001.

Example. Ralph converted his traditional IRA to a Roth IRA in 1998 in a qualified rollover. The account balance of the traditional IRA was equal to $60,000 and no nondeductible contributions had been made to the traditional IRA. If Ralph made an election, Ralph could include in income $15,000 in each year from 1998 to 2001. If Ralph did not make the election, Ralph would include in income for

1998 the full $60,000 distribution from the traditional IRA. In either case, the premature distribution penalty tax would not apply to the distribution.

Example. Rachel converts her traditional IRA to a Roth IRA in 1999 in a qualified rollover. The account balance of the traditional IRA is equal to $75,000 and no nondeductible contributions have been made to the traditional IRA. Rachel includes in income for 1999 the full $75,000 distribution from the traditional IRA, but the premature distribution penalty tax does not apply to the distribution.

If the qualified rollover was made in 1998, distributions from the Roth IRA made within the first three years (i.e., 1998, 1999, and 2000) of the four-year period starting with the conversion of the other IRA to a Roth IRA cause income deferred over the four-year period to be accelerated. This is accomplished by increasing the amount included in income for the year under the four-year spread by the aggregate distributions from Roth IRAs for the year that would be allocated to the taxable portion of the qualified rollover. However, the total increase under this rule is limited to the aggregate amount required to be included in income under the four-year spread reduced by such amounts included in income in preceding years.[4]

Example. Jack converts his traditional IRA to a Roth IRA in 1998. The account balance of the traditional IRA is equal to $100,000 and $20,000 of nondeductible contributions have been made to the traditional IRA. Ralph elects to include in income $20,000 in each year from 1998 to 2001 [(taxable amount of $100,000 - $20,000, or $80,000) ÷ 4 years]. In 1998, Ralph also makes a regular contribution of $2,000 to the Roth IRA and takes a distribution of $2,000 from the Roth IRA. The distribution is treated as made from regular contributions. Therefore, only the $20,000 for which the election was made is includable in income for 1998. The remaining taxable amount from the conversion equals $60,000 ($80,000 initial taxable amount - $20,000 includable in 1998). If nothing else changes, $20,000 is also includable in income in years 1999 to 2001.

Example. In the previous example, assume a distribution in 1999 of $30,000 (and no contributions are made to the Roth IRA). The distribution is treated as made $30,000 from conversion contributions

includable in income. Therefore, Jack must include $50,000 in income for 1999 ($20,000 under the four-year spread + $30,000 from conversion contributions includable in income; not to exceed $60,000 remaining taxable amount from conversion). Furthermore, the $30,000 amount is subject to the premature distribution penalty tax unless an exception applies. If nothing else changes, $10,000 is includable in income in 2000, and $0 is includable in 2001. The $10,000 amount in 2001 and the $0 amount in 2001 reflect that $30,000 of income was accelerated into 1999.

If the individual making the qualified rollover elects the four-year spread for 1998 and dies before all amounts under the four-year spread have been included in income, all remaining amounts are generally includable in income for the year of death. However, a surviving spouse, who receives the entire Roth IRA to which the qualified rollover contribution is properly allocated, can elect to continue including such amounts in income using the four-year spread.[5]

If the rollover from the traditional IRA, SEP IRA or SIMPLE IRA is not a qualified rollover, then the amount of the rollover is treated as distributed from the original IRA and subject to income tax based upon the rules for distributions from such IRA, including the penalty tax for premature distributions if appropriate. The distributed amount is then treated as contributed to the Roth IRA. Most likely such a contribution to the Roth IRA would create an excess contribution subject to the excess contribution penalty tax until corrected.

An "unqualified" rollover to a Roth IRA can be a very taxing event. A taxpayer who makes a conversion to a Roth IRA and discovers that the rollover would not be qualified (e.g., adjusted gross income for the year exceeds $100,000) can elect to recharacterize the contribution to the Roth IRA as being to a traditional IRA and avoid the "unqualified" rollover. The recharacterization must generally occur within the time for filing a tax return (including extensions) for the year of the original rollover to the Roth IRA.[6] However, for conversions made in 1998, the IRS has extended the time for making valid recharacterizations for taxpayers who timely filed their 1998 federal income tax return. A valid recharacterization will be deemed to have been made for those taxpayers if the recharacterization occurs on or before December 31, 1999 and the taxpayer files an amended return for 1998 (if the recharacterization is not properly reflected on the previously filed return).[7]

An election to recharacterize a contribution cannot be revoked once elected. The individual making the election must report the recharacterization to the IRS and all income tax reporting must be consistent with the recharacterization having been made. A recharacterization (which is a trustee-to-trustee transfer) is not treated as a rollover for purposes of the limitation to one rollover per year from a particular IRA.[8]

A recharacterization is accomplished by having the trustee of the first IRA transfer the contribution to be recharacterized along with any income attributable to the contribution to the trustee of the second IRA. The individual makes the election by notifying both trustees that he has made such an election. The notification must include the following:

(1) the type and amount of contribution to the first IRA to be recharacterized;

(2) the date the contribution was made to the first IRA and the year for which it was made;

(3) a direction to the trustee of the first IRA regarding the amount of the contribution and income thereon to be transferred in a trustee-to-trustee transfer to the second IRA; and

(4) the name of both trustees and any additional information needed.[9]

Indeed, any person who converts a traditional, SEP, or SIMPLE IRA to a Roth IRA can recharacterize the contribution to the Roth IRA as being made instead back to such other IRA type and avoid the tax upon conversion to the Roth IRA. However, certain restrictions are placed upon a person who recharacterizes a contribution to a Roth IRA as being made to such other IRA type. If the recharacterization occurred in 1998, the person could reconvert back to a Roth IRA once (but only once) during November and December 1998 and can reconvert back to a Roth IRA once (but only once) during 1999. If the recharacterization occurs in 1999 and there has been no previous conversion, the person can reconvert back to a Roth IRA once (but only once) during 1999. If the recharacterization occurs after 1999, the person can reconvert back to a Roth IRA but only after the later of (1) the beginning of the next year, or (2) 30 days after the recharacterization.[10]

When the stock market dropped in 1998, conversions, recharacterizations, and reconversions were made by persons attempting to reduce the amount taxable upon switching to a Roth IRA as the value of their IRAs dropped. The requirement that a person essentially wait until the later of the following year or 30 days to reconvert back to a Roth IRA reduces, but does not eliminate, the potential value of this technique.

Should a traditional IRA be converted into a Roth IRA in 1999 or later years? If the taxpayer expects to be in the same tax bracket at the time of possible conversion as at the time of distributions, there is no real advantage to converting or not converting. If the taxpayer expects to be in a higher tax bracket later, it probably makes sense to convert now. If the taxpayer expects to be in a lower tax bracket later, it may make no sense to convert. (Comparisons have been made based upon distributions at comparable times. The Roth IRA does have the advantage that required minimum distributions can generally be postponed until both the IRA owner and the spouse of the IRA owner are dead, thus generally permitting a longer tax-free growth period.)

Example: Taxes Paid From Outside of IRA. A traditional IRA containing $100,000 is converted into a Roth IRA in 1999. Assume $28,000 of income tax (28% tax rate) is paid from funds outside the IRA leaving $100,000 inside the IRA. If the $100,000 grows at 10% for 10 years, the Roth IRA grows to $259,370 [$100,000 x 2.5937 future value of single sum factor (10%, 10 years), see Appendix B]. Assuming the $259,370 can be withdrawn in a qualified distribution, the taxpayer has $259,370.

If on the other hand the traditional IRA is not converted, the traditional IRA would grow at 10% for 10 years to $259,370 [$100,000 x 2.5937 future value of single sum factor (10%, 10 years), see Appendix B]. If $72,623.60 ($259,370 x 28% tax rate) of tax is paid, the taxpayer has $186,746.40 ($259,370 - $72,623.60) remaining from the IRA. In addition, in comparison with the conversion, the taxpayer has the $28,000 of taxes which were saved by not converting to a Roth IRA. At 10% for 10 years, the $28,000 will have grown to $72,623.60 [$28,000 x 2.5937 future value of single sum factor (10%, 10 years), see Appendix B]. If the growth portion of the $72,623.60 is not subject to tax, the taxpayer has $259,370 under either scenario. However, if

the growth portion of the $72,623.60 is subject to tax, the taxpayer has a greater amount under the Roth IRA conversion scenario.

Example: Taxes Paid From Within IRA. A traditional IRA containing $100,000 is converted into a Roth IRA in 1999. Assume $28,000 of income tax (28% tax rate) is paid from within the IRA leaving $72,000 inside the IRA. (A penalty tax for a premature distribution may also be due on the amount withdrawn to pay taxes.) If the $72,000 grows at 10% for 10 years, the Roth IRA grows to $186,746.40 [$72,000 x 2.5937 future value of single sum factor (10%, 10 years), see Appendix B]. Assuming the $186,746.40 can be withdrawn in a qualified distribution, the taxpayer has $186,746.40.

If on the other hand the traditional IRA is not converted, the traditional IRA would grow at 10% for 10 years to $259,370 [$100,000 x 2.5937 future value of single sum factor (10%, 10 years), see Appendix B]. If $72,623.60 ($259,370 x 28% tax rate) of tax is paid, the taxpayer has $186,746.40 ($259,370 - $72,623.60) remaining from the IRA. Thus, the taxpayer has $186,746.40 under either scenario.

Example: Lower Tax Rate Later. A traditional IRA containing $100,000 is converted into a Roth IRA in 1999. Assume $28,000 of income tax (28% tax rate) is paid from funds outside the IRA leaving $100,000 inside the IRA. If the $100,000 grows at 10% for 10 years, the Roth IRA grows to $259,370 [$100,000 x 2.5937 future value of single sum factor (10%, 10 years), see Appendix B]. Assuming the $259,370 can be withdrawn in a qualified distribution, the taxpayer has $259,370.

If on the other hand the traditional IRA is not converted, the traditional IRA would grow at 10% for 10 years to $259,370 [$100,000 x 2.5937 future value of single sum factor (10%, 10 years), see Appendix B]. If $38,905.50 ($259,370 x 15% tax rate) of tax is paid, the taxpayer has $220,464.50 ($259,370 - $38,905.50) remaining from the IRA. In addition, in comparison with the conversion, the taxpayer has the $28,000 of taxes which were saved by not converting to a Roth IRA. At 10% for 10 years, the $28,000 will have grown to $72,623.60 [$28,000 x 2.5937 future value of single sum factor (10%, 10 years), see Appendix B]. If the growth portion of the $72,623.60 is not subject to tax, the taxpayer has $293,088.10 under the "no conversion/lower taxes later" scenario.

However, if the growth portion of the $72,623.60 is subject to tax, the advantage under the "no conversion/lower taxes later" scenario would be less or eliminated. For example, the taxpayer has $252,593.49 if the growth portion were subject to a 28% tax [$220,464.50 + (1 - .28)($72,623.60 - $28,000)].

Example: Higher Tax Rate Later. A traditional IRA containing $100,000 is converted into a Roth IRA in 1999. Assume $28,000 of income tax (28% tax rate) is paid from funds outside the IRA leaving $100,000 inside the IRA. If the $100,000 grows at 10% for 10 years, the Roth IRA grows to $259,370 [$100,000 x 2.5937 future value of single sum factor (10%, 10 years), see Appendix B]. Assuming the $259,370 can be withdrawn in a qualified distribution, the taxpayer has $259,370.

If on the other hand the traditional IRA is not converted, the traditional IRA would grow at 10% for 10 years to $259,370 [$100,000 x 2.5937 future value of single sum factor (10%, 10 years), see Appendix B]. If $90,779.50 ($259,370 x 35% tax rate) of tax is paid, the taxpayer has $168,590.50 ($259,370 - $90,779.50) remaining from the IRA. In addition, in comparison with the conversion, the taxpayer has the $28,000 of taxes which were saved by not converting to a Roth IRA. At 10% for 10 years, the $28,000 will have grown to $72,623.60 [$28,000 x 2.5937 future value of single sum factor (10%, 10 years), see Appendix B]. If the growth portion of the $72,623.60 is not subject to tax, the taxpayer has $241,214.10 under the "no conversion/higher taxes later" scenario. However, if the growth portion of the $72,623.60 is subject to tax, the taxpayer has even less.

CHAPTER ENDNOTES

1. See IRC Sec. 408(d)(3).
2. Reg. §1.408A-4(A-1).
3. IRC Sec. 408A(d)(3).
4. IRC Sec. 408A(d)(3)(E)(i).
5. IRC Sec. 408A(d)(3)(E)(ii).
6. Reg. §1.408A-5.
7. Ann. 99-57, 1999-24 IRB 50, as modified by Ann. 99-104, 1999-_IRB_.
8. Reg. §1.408A-5.
9. Reg. §1.408A-5(A-6).
10. Reg. §1.408A-5(A-9).

Chapter 13

DISTRIBUTIONS

A good deal of planning with respect to distributions from an IRA involves arranging distributions before age 59½ so that the premature distribution penalty tax does not apply, and after age 70½ so as to postpone distributions as long as possible under the required minimum distribution rules. But, first, an overview of when IRA distributions are includable in income is in order.

IRA DISTRIBUTIONS INCLUDABLE IN INCOME

Distributions from a traditional IRA, a SEP IRA, or a SIMPLE IRA are includable in income on a prorated basis to the extent that the distribution is made from deductible contributions or earnings from the IRA. If nondeductible contributions have not been made to such an IRA, distributions are fully includable in income.

A qualified distribution from a Roth IRA is excludable from income. A qualified distribution is a distribution from a Roth IRA that is made after the five-taxable year period beginning in the year in which the first contribution was made to a Roth IRA and that is:

(1) made on or after the date the Roth IRA owner turns 59½;

(2) made after the death of the Roth IRA owner;

(3) attributable to disability of the Roth IRA owner; or

(4) made to the Roth IRA owner ($10,000 lifetime limit) for purchase of a first home by the IRA owner, the IRA owner's spouse, or children, grandchildren, or ancestor of either.

Otherwise, distributions from a Roth IRA are includable in income except to the extent that the distribution is made from contributions.

Distributions from a Roth IRA are treated as made first from contributions and then from earnings.

The timing of Roth IRA distributions can be extremely important.

For example, assume contributions of $2,000 have been made to a Roth IRA which is now worth $4,000. If a nonqualified distribution is made of $2,000, the distribution is a nontaxable return of $2,000 of contributions. If a qualified distribution is then made of the remaining $2,000, none of the $4,000 is subject to income tax.

On the other hand, if a qualified distribution of $2,000 is made first, the qualified distribution would be treated as withdrawing $2,000 of contributions. Then, if a nonqualified distribution is made of the remaining $2,000, the full amount of the nonqualified distribution is subject to income tax.

If distributions from Education IRAs for the year do not exceed qualified higher education expenses for the year, distributions are excludable from gross income. However, where distributions exceed qualified higher education expenses, the portion of the distribution attributable to earnings prorated to other than qualified higher education expenses is includable in income.

PREMATURE DISTRIBUTION PENALTY TAX

A distribution from an IRA prior to the IRA owner reaching age 59½ is subject to a 10 percent premature distribution penalty tax to the extent the distribution is includable in income (see above) unless an exception applies. In general, the premature distribution penalty does not apply to distributions:

(1) made after age 59½;

(2) to a beneficiary or the individual's estate, made on or after the death of the individual;

(3) attributable to the individual's disability;

(4) which are part of a series of substantially equal periodic

payments (an important exception which is discussed in detail below);

(5) made for medical care, to the extent that the payment for medical care would be deductible (i.e., such expenses are deductible only to the extent in excess of 7.5 percent of adjusted gross income) without regard as to whether the individual itemizes deductions;

(6) made by an unemployed individual for the payment of health insurance premiums;

(7) made to pay qualified higher education expenses; and

(8) made for first-time homebuyers.

An important exception to the premature distribution penalty tax is for distributions that are part of a series of substantially equal periodic payments made (at least annually) for the life or the life expectancy of the individual or for the lives or the life expectancies of the individual and the individual's designated beneficiary. If the series of substantially equal periodic payments are modified (other than by reason of death or disability) before the individual reaches age 59½, or after the individual reaches age 59½ if within five years of the first payment, the premature penalty tax which would have applied except for the exemption plus interest for the deferral period is added to tax in the year of the modification.

The IRS has approved three methods for calculating substantially equal periodic payments:

(1) where the payment is determined using a method that would be acceptable for minimum required distributions purposes (requires annual calculations);

(2) where the payment is determined by amortizing the IRA account balance over the number of years equal to the life expectancy of the account owner (Table V, see Appendix A) or the life expectancies of the account owner and beneficiary (Table VI, see Appendix A) using a reasonable interest rate on the date payments begin; and

(3) where the payment is determined by dividing the IRA account balance by an annuity factor using a reasonable mortality table and interest rate.[1]

A number of factors should be considered in selecting between the three substantially equal periodic payment methods. These include:

- In selecting a method to use, it is often useful to select the method which comes closest to withdrawing from the IRA the amount that is desired.

- The required minimum distribution method must be recalculated each year, whereas the amortization and annuitization methods need to be calculated only once.

- The amount which can be withdrawn under the amortization or annuitization methods depends on the reasonable interest rate assumed; the required minimum distribution method does not take interest into account. Under the amortization or annuitization methods, higher interest rates result in higher payments; lower interest rates result in lower payments.

- The amount which can be withdrawn under the annuitization method depends on the reasonable mortality table assumed; the required minimum distribution and amortization methods use life expectancy from Table V or Table VI.

- Under all three methods, having a designated beneficiary reduces the amount of the payments (calculations are based upon two lives rather than one). Where there is a designated beneficiary, a younger designated beneficiary results in lower payments; an older designated beneficiary results in higher payments.

- The IRA owner can select which of his IRA accounts are to be taken into consideration for purposes of calculating substantially equal periodic payments and payments can be made from one or more of the selected IRAs. Selecting IRA accounts with a lower aggregate account balance results in lower payments; selecting IRA accounts with a higher aggregate account balance results in higher payments. In general, the IRA owner can

adjust the account balance of his IRAs by splitting IRAs or through rollovers to other IRAs.

Required Minimum Distribution Method

Using the required minimum distribution method can be as simple as dividing the account balance as of the end of the prior year by the life expectancy (Table V, see Appendix A) of the IRA account holder.

For example, assume the IRA account holder is age 40 and the IRA account balance is $100,000. At age 40 life expectancy is 42.5, so dividing the account balance of $100,000 by 42.5, indicates a distribution of $2,353 is required. (If payments are quarterly, simply dividing $2,353 by 4 produces quarterly payments of $588.25.) The next year, at age 41 life expectancy is 41.5 and the account balance is $98,000, so dividing the account balance of $98,000 by 41.5, indicates a distribution of $2,361 is required, and so on.

As shown under the discussion of required minimum distributions (see heading below), life expectancy can also be based on the life expectancies of the IRA account holder and a beneficiary. Various recalculation and nonrecalculation methods are available.

Amortization Method

The payment is determined by amortizing the IRA account balance over the number of years equal to the life expectancy of the account owner (Table V, see Appendix A) or the life expectancies of the account owner and beneficiary (Table VI, see Appendix A) using a reasonable interest rate on the date payments begin. The payment stays constant; it is not recalculated each year.

The basic amortization formula equals:

$$(1 - (1 \div ((1 + i)^{le}))) \div i$$

where i = interest rate and le = life expectancy

The basic amortization factor is then multiplied by a factor from the Annuity Adjustment Factors Table A (if payments are at the

beginning of each period) or Annuity Adjustment Factors Table B (if payments are at the end of each period) to produce an amortization factor adjusted for frequency of payments. See Appendix C for annuity adjustment factors.

The IRA account balance at the beginning of the series of payments is then divided by the frequency adjusted amortization factor to determine the aggregate distribution required each year. If payments are other than annual, divide the aggregate distribution required each year by the number of payments each year.

Example. Assume the IRA account holder is age 40, a reasonable interest rate is 7 percent, and the IRA account balance is $100,000. The Table V life expectancy for age 40 is 42.5. Quarterly distributions payable at the end of each quarter which qualify as substantially equal periodic payments are calculated as follows:

basic amortization factor = $(1 - (1 \div ((1 + i)^{le}))) \div i$
basic amortization factor = $(1 - (1 \div ((1 + 7\%)^{42.5}))) \div 7\%$
basic amortization factor = 13.4802

Annuity Adjustment Factors Table A (Quarterly, 7%) = 1.0259
frequency adjusted amortization factor = 13.4802 x 1.0259
frequency adjusted amortization factor = 13.8293

aggregate yearly distribution = $100,000 ÷ 13.8293
aggregate yearly distribution = $7,231

quarterly distributions = $7,231 ÷ 4
quarterly distributions = $1,808

A present value term certain annuity factor table (see Term Certain Annuity Factor tables in Appendix C) can be used instead of the basic amortization factor formula above. Where life expectancy is between table factors for years, interpolation is generally required. For example, if life expectancy is 42.5, a term certain annuity factor halfway between the table factors for 42 years and 43 years would be used.

Example. Assume the IRA account holder is age 40, a reasonable interest rate is 7 percent, and the IRA account balance is $100,000. The Table V life expectancy for age 40 is 42.5. [A partial year equal to .5 (42.5 - 42) is used in the interpolation below.] Quarterly

distributions payable at the end of each quarter which qualify as substantially equal periodic payments are calculated as follows:

Term Certain Annuity Factor (42 years, 7%) = 13.4524
Term Certain Annuity Factor (43 years, 7%) = 13.5070
basic amortization factor = 13.4524 + ((13.5070 - 13.4524) x .5)
basic amortization factor = 13.4797

Annuity Adjustment Factors Table A (Quarterly, 7%) = 1.0259
frequency adjusted amortization factor = 13.4797 x 1.0259
frequency adjusted amortization factor = 13.8288

aggregate yearly distribution = $100,000 ÷ 13.8288
aggregate yearly distribution = $7,231

quarterly distributions = $7,231 ÷ 4
quarterly distributions = $1,808

Annuitization Method

In general, payment is determined by dividing the IRA account balance by an annuity factor (including a factor from the Single Life Annuity Factors table and a factor from Annuity Adjustment Factors Table A) using a reasonable mortality table and interest rate. Presumably, the annuity factor can be based upon the age of the IRA account holder or the ages of the IRA account holder and a beneficiary. Single life annuity factors based upon mortality Table 90 CM are available in Appendix C. Tables based on mortality Table 90 CM are used by the Service under Code section 7520 to value annuities, life estates, and remainders for a wide variety of purposes; mortality Table 90 CM is believed to be a reasonable mortality table.

For example, assume the IRA account holder is age 40, a reasonable interest rate is 7 percent, and the IRA account balance is $100,000. Quarterly distributions payable at the end of each quarter which qualify as substantially equal periodic payments are calculated as follows:

Single Life Annuity Factor (age 40, 7%) = 12.7906
Annuity Adjustment Factors Table A (Quarterly, 7%) = 1.0259
combined annuity factor = 12.7906 x 1.0259
combined annuity factor = 13.1219

aggregate yearly distribution = $100,000 ÷ 13.1219
aggregate yearly distribution = $7,621

quarterly distributions = $7,621 ÷ 4
quarterly distributions = $1,905.25

If payments in the example were at the beginning of each period, an adjustment must be made for the first payment. Quarterly distributions payable at the beginning of each quarter which qualify as substantially equal periodic payments are calculated as follows:

Single Life Annuity Factor (age 40, 7%) = 12.7906
Annuity Adjustment Factors Table A (Quarterly, 7%) = 1.0259
combined annuity factor = 12.7906 x 1.0259
combined annuity factor = 13.1219

first payment adjustment factor = 1 ÷ number of payments in year
first payment adjustment factor = 1 ÷ 4
first payment adjustment factor = .25

adjusted combined annuity factor = 13.1219 + .25
adjusted combined annuity factor = 13.3719

aggregate yearly distribution = $100,000 ÷ 13.3719
aggregate yearly distribution = $7,478

quarterly distributions = $7,478 ÷ 4
quarterly distributions = $1,869.50

REQUIRED MINIMUM DISTRIBUTIONS

Distributions must generally begin from a traditional IRA, SEP IRA (including a SAR-SEP IRA), or SIMPLE IRA at the earlier of the death of the IRA owner or when the IRA owner turns age 70½. (See next two paragraphs regarding Roth and Education IRAs.) These rules are generally referred to as the required minimum distribution rules and are discussed in detail, including examples, below. A 50 percent penalty applies to the extent a required minimum distribution is not made.

In the case of a Roth IRA, required minimum distributions need not begin until after the death of the Roth IRA owner (which includes the spouse of the original Roth IRA owner where the surviving spouse is the designated beneficiary and elects to treat the Roth IRA as the spouse's own).[2]

In the case of an Education IRA, the IRA must generally be distributed at the earlier of death or when the beneficiary turns age 30. While there is no penalty for failure to make the distribution from the Education IRA, the Education IRA will be deemed distributed (and thus taxable) and the Education IRA deemed terminated at the earlier of death or when the beneficiary turns age 30. The required distribution when a beneficiary dies or reaches age 30 can be avoided by naming a new beneficiary who is under 30 years of age.[3]

When a traditional IRA, SEP IRA, or SIMPLE IRA owner reaches age 70½, the IRA owner must begin taking required minimum distributions. In general, the required minimum distribution rules cause the IRA owner to withdraw the entire IRA account balance over the IRA owner's life or the lives of the IRA owner and a designated beneficiary. If there is more than one beneficiary other than the IRA owner, the oldest other beneficiary's life expectancy is used for the designated beneficiary. Special rules apply where the spouse of the IRA owner is the designated beneficiary. Failure to withdraw the required minimum distribution results in a 50 percent penalty tax on the amount by which the required minimum distribution exceeds the actual amount withdrawn.[4]

An additional rule, the minimum distribution incidental benefit (MDIB) rule, is designed to insure that traditional, SEP IRA, or SIMPLE IRA distributions are primarily for the benefit of the IRA owner. The rule does this, while the IRA owner is alive, by treating a beneficiary other than the spouse of the IRA owner as no more than 10 years younger than the IRA owner.[5]

In the case of a traditional, SEP, or SIMPLE IRA, required minimum distributions generally must begin when the IRA owner reaches age 70½. Ordinarily, required minimum distributions must be made by December 31st of each year. However, in the year the IRA owner reaches age 70½, the required minimum distribution for that year need not be made until April 1st of the following year (the required beginning date). Two distributions in a single year would be required where the distribution for the year the IRA owner turns 70½ (first year) is made in the following year (second year): the distribution for the first year must be made by April 1 and the one for the second year by December 31.

Required minimum distributions may be calculated for each IRA and distributions made from each IRA as appropriate. Alternatively, required minimum distributions may be calculated for each IRA within a category (e.g., traditional, Roth) owned by the individual and totalled, and distributions made from whichever IRA or IRAs within the category the IRA owner chooses.[6] However, an inherited IRA may not be aggregated with any other IRA within a category unless the other IRA was inherited from the same person. For this purpose, an IRA which a surviving spouse elects to treat as such spouse's own is not treated as being inherited from the decedent spouse.

The required minimum distribution for each year is generally calculated by dividing the IRA account balance as of the end of the previous year by the life expectancy of the IRA owner or the joint and survivor life expectancy of the IRA owner and a designated beneficiary. Life expectancies for one life are based upon annuity Table V (see Appendix A); joint and survivor life expectancies are based upon annuity Table VI (see Appendix A).

Attained age is used for the age of the IRA owner and beneficiary in the appropriate year. Thus, an IRA owner whose birthday is in the first half of the year (January-June) will be age 70 in the year the IRA owner turns 70½ and will enter the table using age 70. On the other hand, an IRA owner whose birthday is in the second half of the year (July-December) will be age 71 in the year the IRA owner turns 70½ and will enter the table using age 71.

Required minimum distributions may be calculated using either a recalculation method or a "subtract one" method. The recalculation method is available only for calculations of the life expectancy of the IRA owner and the spouse of the IRA owner. It essentially involves recalculating the life expectancy of the IRA owner and/or spouse of the IRA owner each year by reentering the life expectancy tables. For example, if the IRA owner has no designated beneficiary and the IRA owner attains age 70 in the year the owner reaches age 70½, life expectancy is 16 (see Table V) for that year, 15.3 in the following year, and so on. If the IRA owner has no designated beneficiary and the IRA owner attains age 71 in the year the owner reaches age 70½, life expectancy is 15.3 (see Table V) for that year, 14.6 in the following year, and so on.

Assuming the IRA document permits it, the "subtract one" method can be used by the IRA owner and the spouse of the IRA owner instead of the recalculation method. The "subtract one" method is required for any beneficiary other than the IRA owner or the spouse of the IRA owner. The "subtract one" method will almost always be used with a Roth IRA because required minimum distributions can be generally postponed until after the death of the IRA owner and the spouse of the IRA owner.

The "subtract one" method involves determining the life expectancy of the IRA owner or life expectancy of the IRA owner and the designated beneficiary in the year the IRA owner turns 70½, and then subtracting one from the life expectancy in each year thereafter. For example, if the IRA owner has no designated beneficiary and the IRA owner attains age 70 in the year the owner reaches age 70½, life expectancy is 16 (see Table V) for that year, 15 (16 - 1) in the following year, and so on. If the IRA owner has no designated beneficiary and the IRA owner attains age 71 in the year the owner reaches age 70½, life expectancy is 15.3 (see Table V) for that year, 14.3 (15.3 - 1) in the following year, and so on.

The recalculation method generally permits a slower payout than the "subtract one" method because the life expectancies in the tables drop by less than one year for each year that an individual survives. However, if a person whose life expectancy is being recalculated dies, such person's life expectancy drops to zero. For example, if the IRA owner uses the recalculation method and has no designated beneficiary and the IRA owner attains age 70 in the year the owner reaches age 70½, life expectancy is 16 (see Table V) for that year. But if the IRA owner dies in the next year, life expectancy drops to zero and the entire IRA must generally be distributed immediately. If the IRA owner uses the subtract one method and has no designated beneficiary and the IRA owner attains age 70 in the year the owner reaches age 70½, life expectancy is 16 (see Table V) for that year, 15 (16 - 1) in the following year, and so on. Even if the IRA owner dies, payment are made over the 16 years of initial life expectancy.

While the traditional IRA owner is alive, a designated beneficiary other than the spouse of the IRA owner is treated as no more than 10 years younger than the IRA owner under the minimum distribution incidental benefit (MDIB) rule. If the amount determined under the minimum distribution incidental benefit rule is higher than the regular required

minimum distribution, the higher amount is required to be distributed. In essence, the minimum distribution incidental benefit rule attempts to insure that distributions are primarily for the benefit of the owner of the traditional, SEP, or SIMPLE IRA. The rule does so by preventing distributions from being excessively spread out over many years through the use of a beneficiary (except in the case of the spouse of the IRA owner) who is much younger than the IRA owner.

The minimum distribution incidental benefit (MDIB) factor is determined for any year by using the age of the owner in the following table.

TABLE A

(Prop. Reg. §1.401(a)(9)-2, Q-4(a)(2), Q-5(b))

Age	Divisor or Maximum Period	Age	Divisor or Maximum Period	Age	Divisor or Maximum Period
70	26.2	86	13.1	101	5.3
71	25.3	87	12.4	102	5.0
72	24.4	88	11.8	103	4.7
73	23.5	89	11.1	104	4.4
74	22.7	90	10.5	105	4.1
75	21.8	91	9.9	106	3.8
76	20.9	92	9.4	107	3.6
77	20.1	93	8.8	108	3.3
78	19.2	94	8.3	109	3.1
79	18.4	95	7.8	110	2.8
80	17.6	96	7.3	111	2.6
81	16.8	97	6.9	112	2.4
82	16.0	98	6.5	113	2.2
83	15.3	99	6.1	114	2.0
84	14.5	100	5.7	115 and older	1.8
85	13.8				

* The divisor and maximum periods shown in this Table A can also be determined by finding the joint and last survivor expectancy of an individual the same age as the participant and a beneficiary 10 years younger using Table VI of Regulation §1.72-9.

For example, if the owner of the traditional, SEP, or SIMPLE IRA is age 70 and the designated beneficiary (who is not the spouse of the IRA owner) is age 40, the joint and survivor life expectancy for a person age

70 and a person age 40 would ordinarily be 42.9 (see Table VI). However, the minimum distribution incidental benefit rule would treat the designated beneficiary as being age 60 (70 - 10), and the resulting joint and survivor life expectancy for a person age 70 and a person age 60 would be 26.2. The factor for calculating the required minimum distribution is the lower of the regular factor (42.9) or the MDIB factor (26.2), or 26.2.

If the traditional, SEP, or SIMPLE IRA owner dies after the required beginning date (generally, April 1st after reaching age 70½), required minimum distributions generally must continue at least as rapidly as under the method used (or required) while the IRA owner was alive. However, where the spouse of the IRA owner is the designated beneficiary after the owner's death, such spouse can generally elect to be treated as the owner of the IRA for purposes of the required minimum distribution rules.

If the traditional, SEP, or SIMPLE IRA owner dies before the required beginning date (generally, April 1st after reaching age 70½), the entire IRA account must be distributed by December 31 of the year that contains the fifth anniversary of the owner's death unless the IRA owner has designated a beneficiary.[7] Where the IRA owner has designated a beneficiary, distributions may be made over the life expectancy (Table V) of the beneficiary as long as such distributions begin no later than December 31 of the year following the IRA owner's death.[8]

However, where the spouse of the IRA owner is the designated beneficiary after the owner's death, such spouse can generally elect to be treated as the owner of the IRA for purposes of the required minimum distribution rules. In the case of a Roth IRA, such an election would permit required minimum distributions to be postponed until after the death of the spouse. In the case of a traditional, SEP, or SIMPLE IRA, such an election would permit distributions to be postponed until the spouse reaches age 70½. Also, where the spouse of the IRA owner is the designated beneficiary, after the owner's death such spouse could postpone required minimum distributions until such time as the former IRA owner would have reached age 70½.

A methodology for making required minimum distribution calculations, including projections of account balances and distributions for future years, follows. It must be remembered that calculations for future years are just projections; required minimum distributions must be calcu-

lated each year based upon the actual account balance as of the end of the previous year. The account may grow at a faster or a slower rate than projected. In any year, an amount larger than the required minimum distribution may be taken out. Taking out an amount less than the required minimum distribution is disastrous — a 50 percent penalty applies to the shortfall. Furthermore, death can cause a change in the calculation.

In the "IRA Required Minimum Distributions" spreadsheets that follow, the columns are as described below.

Age. Depending on whether the calculation is based on one life (generally, the owner) or two lives (the owner and a beneficiary), for each succeeding year the age of the owner is shown in the first column and the age of the beneficiary in the second column (where applicable).

Account Balance, Balance Plus Interest. Following the age column(s) is the "account balance" column. The "account balance" here is as of December 31 of the preceding year. The account balance is increased by interest in the "balance plus interest" column to show the growth of the account balance during the year prior to the required minimum distribution at the end of the year. The account balance at the beginning of the next year is then equal to the "balance plus interest" reduced by the required minimum distribution.

Table V or VI Factors. Factors are based on either Table V (one life) or Table VI (two lives). The actual factor used will depend on the method used (Recalculation, Subtract One, or a combination thereof). Factors are dependent on the age of the owner (and, possibly, the beneficiary); however, the factor may not correspond to the age in the year being calculated because artificial ages are sometimes used under the different methods.

Required Minimum Distribution (RMD). The required minimum distribution is determined by dividing the account balance as of the end of the preceding year by the factor derived from Table V or Table VI. If the amount determined in this fashion exceeds the amount in the "account balance plus interest" column, the required minimum distribution equals the "account balance plus interest." If the factor is zero (division by zero is not permissible), the amount distributed also equals the "account balance plus interest."

One Life Calculations

Required minimum distribution calculations based upon one life are generally used where (1) a traditional, SEP, or SIMPLE IRA owner has attained age 70½ and does not have a designated beneficiary, (2) a traditional, SEP, or SIMPLE IRA owner died before attaining age 70½ and the designated beneficiary is not the spouse of the owner, or (3) there is a calculation for a Roth IRA beneficiary.

In the case of a traditional, SEP, or SIMPLE IRA owner, the starting age for purposes of these calculations is 70 where the IRA owner's birthday is in the first half of the year, and age 71 where the IRA owner's birthday is in the second half of the year. The IRA owner can use either a recalculation (R) or a "subtract one" (S1), or "no recalculation," method.

In the case of an IRA owner who dies before attaining age 70½ and the designated beneficiary is not the spouse of the owner, or in the case of a Roth beneficiary, the starting age for these purposes will be the age attained by the beneficiary in the year after the death of the owner. Such a beneficiary can use only the "subtract one" or "no recalculation" method. (Roth IRA distributions can be postponed until the death of the IRA owner and, generally, the death of the spouse of the owner.)

A surviving spouse of the IRA owner can generally treat an IRA received at death from the decedent IRA owner as the surviving spouse's own. Such a spouse is treated thereafter as the owner of the IRA.

In the case of a traditional, SEP, or SIMPLE IRA, the "subtract one" method will be the only method used where the owner dies before the owner's required beginning date and the designated beneficiary is other than the spouse of the IRA owner. (However, if a beneficiary is not designated, the entire IRA account would be required to be distributed within five years of the death of the IRA owner.) In such case, the "subtract one" method will be used starting with the Table V factor for the age of the beneficiary after the death of the owner. For example, if the beneficiary is age 20, the Table V factor for calculating required minimum distributions is 61.9. The next year, the factor using the "subtract one" method equals 60.9 (61.9 - 1), and so on.

Also, in the case of a Roth IRA, the "subtract one" method will be the only method used. (However, if a beneficiary is not designated, the entire IRA account would be required to be distributed within five years of the death of the IRA owner.) Distributions can essentially be postponed from a Roth IRA until after the death of the Roth owner and the spouse of the owner. Therefore, the required minimum distribution will be based upon the life expectancy of a beneficiary who is not the spouse of the Roth IRA owner. In such case, the "subtract one" method will be used starting with the Table V factor for the age of the beneficiary after the death of the owner and/or spouse. For example, if the beneficiary is age 20, the Table V factor for calculating required minimum distributions is 61.9. The next year, the factor using the "subtract one" method equals 60.9 (61.9 - 1), and so on.

Figures 13.1 through 13.8 show a number of examples of required minimum distribution calculations where there is only one measuring life, including recalculation versus nonrecalculation and the effect of death.

Figure 13.1

ONE LIFE, RECALCULATE OWNER

This figure is an example of using the recalculation method for the owner where there is no designated beneficiary. The owner's starting age is 70 (an owner born in the second half of the year would have a starting age of 71) and the starting IRA account balance is $100,000. The Table V factor for a person age 70 equals 16.0. Adding interest at 7 percent to the starting account balance produces a "balance plus 7 percent" equal to $107,000 ($100,000 x 1.07). The required minimum distribution equals $6,250 ($100,000 ÷ 16.0).

The account balance as of the end of the first year is $100,750 ($107,000 - $6,250). The Table V factor for a person age 71 equals 15.3. Adding interest at 7 percent to the account balance produces a "balance plus 7 percent" equal to $107,803 ($100,750 x 1.07). The required minimum distribution equals $6,585 ($100,750 ÷ 15.3).

Figure 13.1 (cont'd)

IRA REQUIRED MINIMUM DISTRIBUTIONS
(Recalculate Owner)

Age	Account Balance	Table V (R)	Balance Plus 7%	RMD
70	$100,000	16.0	$107,000	$6,250
71	100,750	15.3	107,803	6,585
72	101,218	14.6	108,303	6,933
73	101,370	13.9	108,466	7,293
74	101,173	13.2	108,255	7,665
75	100,590	12.5	107,631	8,047
76	99,584	11.9	106,555	8,368
77	98,187	11.2	105,060	8,767
78	96,293	10.6	103,034	9,084
79	93,950	10.0	100,527	9,395
80	91,132	9.5	97,511	9,593
81	87,918	8.9	94,072	9,878
82	84,194	8.4	90,088	10,023
83	80,065	7.9	85,670	10,135
84	75,535	7.4	80,822	10,207
85	70,615	6.9	75,558	10,234
86	65,324	6.5	69,897	10,050
87	59,847	6.1	64,036	9,811
88	54,225	5.7	58,021	9,513
89	48,508	5.3	51,904	9,152
90	42,752	5.0	45,745	8,550
91	37,195	4.7	39,799	7,914
92	31,885	4.4	34,117	7,247
93	26,870	4.1	28,751	6,554
94	22,197	3.9	23,751	5,692
95	18,059	3.7	19,323	4,881
96	14,442	3.4	15,453	4,248
97	11,205	3.2	11,989	3,502
98	8,487	3.0	9,081	2,829
99	6,252	2.8	6,690	2,233
100	4,457	2.7	4,769	1,651
101	3,118	2.5	3,336	1,247
102	2,089	2.3	2,235	908
103	1,327	2.1	1,420	632
104	788	1.9	843	415
105	428	1.8	458	238
106	220	1.6	235	137
107	98	1.4	105	70
108	35	1.3	37	27
109	10	1.1	11	9
110	2	1.0	2	2

Figure 13.2

ONE LIFE, RECALCULATE OWNER, AGE 71

An owner born in the second half of the year would have a starting age of 71. The calculation for a person age 71 is essentially the same as for a person age 70 (see Figure 13.1), except that the starting age and life expectancy are different.

This figure is an example of using the recalculation method for the owner where there is no designated beneficiary and the owner's starting age is 71. The starting IRA account balance is $100,000. The Table V factor for a person age 71 equals 15.3. Adding interest at 7 percent to the starting account balance produces a "balance plus 7 percent" equal to $107,000 ($100,000 x 1.07). The required minimum distribution equals $6,536 ($100,000 ÷ 15.3).

The account balance as the end of the first year is $100,464 ($107,000 - $6,536). The Table V factor for a person age 72 equals 14.6. Adding interest at 7 percent to the account balance produces a "balance plus 7 percent" equal to $107,496 ($100,464 x 1.07). The required minimum distribution equals $6,881 ($100,464 ÷ 14.6).

IRA REQUIRED MINIMUM DISTRIBUTIONS
(Recalculate Owner)

Age	Account Balance	Table V (R)	Balance Plus 7%	RMD
71	$100,000	15.3	$107,000	$6,536
72	100,464	14.6	107,496	6,881
73	100,615	13.9	107,658	7,238
74	100,420	13.2	107,449	7,608
75	99,841	12.5	106,830	7,987
76	98,843	11.9	105,762	8,306
77	97,456	11.2	104,278	8,701
78	95,577	10.6	102,267	9,017
79	93,250	10.0	99,778	9,325
80	90,453	9.5	96,785	9,521
81	87,264	8.9	93,372	9,805
82	83,567	8.4	89,417	9,948
83	79,469	7.9	85,032	10,059
84	74,973	7.4	80,221	10,131
85	70,090	6.9	74,996	10,158
86	64,838	6.5	69,377	9,975
87	59,402	6.1	63,560	9,738
88	53,822	5.7	57,590	9,442
89	48,148	5.3	51,518	9,085
90	42,433	5.0	45,403	8,487
91	36,916	4.7	39,500	7,854
92	31,646	4.4	33,861	7,192

Figure 13.2 (cont'd)

IRA REQUIRED MINIMUM DISTRIBUTIONS
(Recalculate Owner)

Age	Account Balance	Table V (R)	Balance Plus 7%	RMD
93	$26,669	4.1	$28,536	$6,505
94	22,031	3.9	23,573	5,649
95	17,924	3.7	19,179	4,844
96	14,335	3.4	15,338	4,216
97	11,122	3.2	11,901	3,476
98	8,425	3.0	9,015	2,808
99	6,207	2.8	6,641	2,217
100	4,424	2.7	4,734	1,639
101	3,095	2.5	3,312	1,238
102	2,074	2.3	2,219	902
103	1,317	2.1	1,409	627
104	782	1.9	837	412
105	425	1.8	455	236
106	219	1.6	234	137
107	97	1.4	104	69
108	35	1.3	37	27
109	10	1.1	11	9
110	2	1.0	2	2

Figure 13.3

ONE LIFE, NO RECALCULATION

This figure is an example of using the "subtract one," or "no recalculation," method for the owner where there is no designated beneficiary. The owner's starting age is 70 (an owner born in the second half of the year would have a starting age of 71) and the starting IRA account balance is $100,000. The Table V factor for a person age 70 equals 16.0. Adding interest at 7 percent to the starting account balance produces a "balance plus 7 percent" equal to $107,000 ($100,000 x 1.07). The required minimum distribution equals $6,250 ($100,000 ÷ 16.0). Thus, in the first year, the "subtract one" and recalculation (see Figure 13.1) methods produce the same results.

The account balance as of the end of the first year is $100,750 ($107,000 - $6,250). The minus 1 factor for the second year equals 15.0 (16.0 - 1). Adding interest at 7 percent to the account balance produces a "balance plus 7 percent" equal to $107,803 ($107,000 x 1.07). The required minimum distribution equals $6,717 ($100,750 ÷ 15.0).

IRA REQUIRED MINIMUM DISTRIBUTIONS
(No Recalculation)

Age	Account Balance	Table V (S1)	Balance Plus 7%	RMD
70	$100,000	16.0	$107,000	$6,250
71	100,750	15.0	107,803	6,717
72	101,086	14.0	108,162	7,220
73	100,942	13.0	108,008	7,765
74	100,243	12.0	107,260	8,354
75	98,906	11.0	105,829	8,991
76	96,838	10.0	103,617	9,684
77	93,933	9.0	100,508	10,437
78	90,071	8.0	96,376	11,259
79	85,117	7.0	91,075	12,160
80	78,915	6.0	84,439	13,152
81	71,287	5.0	76,277	14,257
82	62,020	4.0	66,361	15,505
83	50,856	3.0	54,416	16,952
84	37,464	2.0	40,086	18,732
85	21,354	1.0	22,849	21,354
86	1,495	0.0	1,600	1,600

Figure 13.4

ONE LIFE, NO RECALCULATION, AGE 71

An owner born in the second half of the year would have a starting age of 71. The calculation for a person age 71 is essentially the same as for a person age 70, except that the starting age and life expectancy are different.

This figure is an example of using the "subtract one," or "no recalculation," method for the owner where there is no designated beneficiary and the owner's starting age is 71. The starting IRA account balance is $100,000. The Table V factor for a person age 71 equals 15.3. Adding interest at 7 percent to the starting account balance produces a "balance plus 7 percent" equal to $107,000 ($100,000 x 1.07). The required minimum distribution equals $6,536 ($100,000 ÷ 15.3). Thus, in the first year, the "subtract one" and recalculation (see Figure 13.2) methods produce the same results.

The account balance as of the end of the first year is $100,464 ($107,000 - $6,536). The "subtract one" factor for the second year equals 14.3 (15.3 - 1). Adding interest at 7 percent to the account balance produces a "balance plus 7 percent" equal to $107,496 ($100,464 x 1.07). The required minimum distribution equals $7,025 ($100,464 ÷ 14.3).

IRA REQUIRED MINIMUM DISTRIBUTIONS
(No Recalculation)

Age	Account Balance	Table V (S1)	Balance Plus 7%	RMD
71	$100,000	15.3	$107,000	$6,536
72	100,464	14.3	107,496	7,025
73	100,471	13.3	107,504	7,554
74	99,950	12.3	106,947	8,126
75	98,821	11.3	105,738	8,745
76	96,993	10.3	103,783	9,417
77	94,366	9.3	100,972	10,147
78	90,825	8.3	97,183	10,943
79	86,240	7.3	92,277	11,814
80	80,463	6.3	86,095	12,772
81	73,323	5.3	78,456	13,835
82	64,621	4.3	69,144	15,028
83	54,116	3.3	57,904	16,399
84	41,505	2.3	44,410	18,046
85	26,364	1.3	28,209	20,280
86	7,929	.3	8,484	8,484

Figure 13.5

ONE LIFE, RECALCULATE OWNER, PRIOR RMD YEARS

It will often be desirable to revisit projections where there have been required minimum distributions in prior years (or perhaps to project for future years where no projections have been previously made). This figure is an example of using the recalculation method for the owner where there is no designated beneficiary and there have been 10 prior RMD years. The owner's starting age was 70 (an owner born in the second half of the year would have had a starting age of 71), the owner is now 80, and the starting IRA account balance is $100,000. The Table V factor for a person age 80 equals 9.5. Adding interest at 7 percent to the starting account balance produces a "balance plus 7 percent" equal to $107,000 ($100,000 x 1.07). The required minimum distribution equals $10,526 ($100,000 ÷ 9.5).

The account balance as of the end of the first year is $96,474 ($107,000 - $10,526). The Table V factor for a person age 71 equals 8.9. Adding interest at 7 percent to the account balance produces a "balance plus 7 percent" equal to $103,227 ($96,474 x 1.07). The required minimum distribution equals $10,840 ($96,474 ÷ 8.9).

IRA REQUIRED MINIMUM DISTRIBUTIONS
(Recalculate Owner)
(Prior RMD Years: 10)

Age	Account Balance	Table V (R)	Balance Plus 7%	RMD
80	$100,000	9.5	$107,000	$10,526
81	96,474	8.9	103,227	10,840
82	92,387	8.4	98,854	10,998
83	87,856	7.9	94,006	11,121
84	82,885	7.4	88,687	11,201
85	77,486	6.9	82,910	11,230
86	71,680	6.5	76,698	11,028
87	65,670	6.1	70,267	10,766
88	59,501	5.7	63,666	10,439
89	53,227	5.3	56,953	10,043
90	46,910	5.0	50,194	9,382
91	40,812	4.7	43,669	8,683
92	34,986	4.4	37,435	7,951
93	29,484	4.1	31,548	7,191
94	24,357	3.9	26,062	6,245
95	19,817	3.7	21,204	5,356
96	15,848	3.4	16,957	4,661
97	12,296	3.2	13,157	3,842
98	9,315	3.0	9,967	3,105
99	6,862	2.8	7,342	2,451
100	4,891	2.7	5,233	1,811
101	3,422	2.5	3,662	1,369

Figure 13.5 (cont'd)

IRA REQUIRED MINIMUM DISTRIBUTIONS
(Recalculate Owner)
(Prior RMD Years: 10)

Age	Account Balance	Table V (R)	Balance Plus 7%	RMD
102	$2,293	2.3	$2,454	$997
103	1,457	2.1	1,559	694
104	865	1.9	926	455
105	471	1.8	504	262
106	242	1.6	259	151
107	108	1.4	116	77
108	39	1.3	42	30
109	12	1.1	13	11
110	2	1.0	2	2

Figure 13.6

ONE LIFE, NO RECALCULATION, PRIOR RMD YEARS

It will often be desirable to revisit projections where there have been required minimum distributions in prior years (or perhaps to project for future years where no projections have been previously made). This figure is an example of using the "subtract one," or "no recalculation," method for the owner where there is no designated beneficiary and there have been 10 prior RMD years. The owner's starting age was 70 (an owner born in the second half of the year would have had a starting age of 71), the owner is now 80, and the starting IRA account balance is $100,000. The Table V factor for a person age 70 equals 16.0. The "subtract one" factor at age 80 equals 6.0 (16.0 - 10 elapsed years). Adding interest at 7 percent to the starting account balance produces a "balance plus 7 percent" equal to $107,000 ($100,000 x 1.07). The required minimum distribution equals $16,667 ($100,000 ÷ 6.0).

The account balance as of end of the first year is $90,333 ($107,000 - $16,667). The "subtract one" factor at age 81 equals 5.0 (6.0 - 1). Adding interest at 7 percent to the account balance produces a "balance plus 7 percent" equal to $96,656 ($90,333 x 1.07). The required minimum distribution equals $18,067 ($90,333 ÷ 5.0).

IRA REQUIRED MINIMUM DISTRIBUTIONS

(No Recalculation)
(Prior RMD Years: 10)

Age	Account Balance	Table V (S1)	Balance Plus 7%	RMD
80	$100,000	6.0	$107,000	$16,667
81	90,333	5.0	96,656	18,067
82	78,589	4.0	84,090	19,647
83	64,443	3.0	68,954	21,481
84	47,473	2.0	50,796	23,736
85	27,060	1.0	28,954	27,060
86	1,894	0.0	2,027	2,027

Figure 13.7

ONE LIFE, RECALCULATE OWNER, PRIOR RMD YEARS, DEATH PROJECTED

Calculations may change upon death. Therefore, it may also be desirable to make projections assuming death in a certain number of years. It may be useful to use the life expectancy of the owner (and, possibly, the beneficiary) from Table V for this projection. For example, the life expectancy from Table V for someone age 70 is 16.0 years.

This figure is an example of using the recalculation method for the owner where there is no designated beneficiary and there have been 10 prior RMD years. The owner's starting age was 70 (an owner born in the second half of the year would have had a starting age of 71), the owner is now 80, and the starting IRA account balance is $100,000. If the owner using the recalculation method dies at age 85, the owner's life expectancy drops to zero for the next year and the entire IRA account balance must be distributed in that year.

IRA REQUIRED MINIMUM DISTRIBUTIONS

(Recalculate Owner)
(Death of Owner: 85)
(Prior RMD Years: 10)

Age	Account Balance	Table V (R)	Balance Plus 7%	RMD
80	$100,000	9.5	$107,000	$10,526
81	96,474	8.9	103,227	10,840
82	92,387	8.4	98,854	10,998
83	87,856	7.9	94,006	11,121
84	82,885	7.4	88,687	11,201
85	77,486	6.9	82,910	11,230
86	71,680	0.0	76,698	76,698

Figure 13.8

ONE LIFE, NO RECALCULATION, PRIOR RMD YEARS, DEATH PROJECTED

Calculations may change upon death. Therefore, it may also be desirable to make projections assuming death in a certain number of years. It may be useful to use the life expectancy of the owner (and, possibly, the beneficiary) from Table V for this projection. For example, the life expectancy from Table V for someone age 70 is 16.0 years.

This figure is an example of using the "subtract one," or "no recalculation," method for the owner where there is no designated beneficiary and there have been 10 prior RMD years. The owner's starting age was 70 (an owner born in the second half of the year would have had a starting age of 71), the owner is now 80, and the starting IRA account balance is $100,000. If the owner using the "subtract one" method dies, the required minimum distributions continue the same as if death had not occurred.

IRA REQUIRED MINIMUM DISTRIBUTIONS

(No Recalculation)
(Death of Owner: 82)
(Prior RMD Years: 10)

Age	Account Balance	Table V (S1)	Balance Plus 7%	RMD
80	$100,000	6.0	$107,000	$16,667
81	90,333	5.0	96,656	18,067
82	78,589	4.0	84,090	19,647
83	64,443	3.0	68,954	21,481
84	47,473	2.0	50,796	23,736
85	27,060	1.0	28,954	27,060
86	1,894	0.0	2,027	2,027

Owner and Spouse Beneficiary Calculations

Required minimum distribution calculations based upon the owner's and the spouse's lives are generally used where a traditional, SEP, or SIMPLE IRA owner has attained age 70½ and the designated beneficiary is the spouse of the owner. (Roth IRA distributions can be postponed until the death of the IRA owner and, generally, the death of the spouse of the owner and would be based on one life, the beneficiary's.)

In the case of a traditional, SEP, or SIMPLE IRA owner, the starting age for the owner for purposes of these calculations is 70 where the IRA owner's birthday is in the first half of the year, and age 71 where the IRA owner's birthday is in the second half of the year.

The IRA owner can use either a recalculation or a "subtract one," or "no recalculation," method. Likewise, the spouse can use either a recalculation or a "subtract one," or "no recalculation," method. Thus, the methods available here include recalculate both (R), recalculate owner (R/S1), recalculate spouse (S1/R), or no recalculation (S1).

A surviving spouse of the IRA owner can generally treat an IRA received at death from the decedent IRA owner as the surviving spouse's own. Such a spouse is treated thereafter as the owner of the IRA.

Figures 13.9 through 13.17 show a number of examples of required minimum distribution calculations where the spouse is the only other beneficiary, including recalculation of one spouse, both spouses or none and the effect of death of either or both spouses.

Figure 13.9

SPOUSE BENEFICIARY, RECALCULATE BOTH

This figure is an example of using the recalculation method for both the owner and the spouse of the owner. The owner's starting age is 70 (an owner born in the second half of the year would have a starting age of 71), the spouse is age 55, and the starting IRA account balance is $100,000. The Table VI factor for a person age 70 and a person age 55 equals 29.9. Adding interest at 7 percent to the starting account balance produces a "balance plus 7 percent" equal to $107,000 ($100,000 x 1.07). The required minimum distribution equals $3,344 ($100,000 ÷ 29.9).

The account balance as of the end of the first year is $103,656 ($107,000 - $3,344). The Table VI factor for a person age 71 and a person age 56 equals 29.0. Adding interest at 7 percent to the account balance produces a "balance plus 7 percent" equal to $110,912 ($103,656 x 1.07). The required minimum distribution equals $3,574 ($103,656 ÷ 29.0).

If the spouse of the IRA owner survives the owner and receives the entire IRA, the spouse can elect to treat the IRA as the spouse's own. In such case, the IRA calculation can begin all over again using whatever method (e.g., recalculation or "subtract one" for surviving spouse) is desired.

IRA REQUIRED MINIMUM DISTRIBUTIONS
(Spouse Beneficiary, Recalculate Both)

Age	Age	Account Balance	Table VI (R)	Balance Plus 7%	RMD
70	55	$100,000	29.9	$107,000	$3,344
71	56	103,656	29.0	110,912	3,574
72	57	107,338	28.1	114,852	3,820
73	58	111,032	27.1	118,804	4,097
74	59	114,707	26.2	122,736	4,378
75	60	118,358	25.3	126,643	4,678
76	61	121,965	24.4	130,503	4,999
77	62	125,504	23.6	134,289	5,318
78	63	128,971	22.7	137,999	5,682
79	64	132,317	21.8	141,579	6,070
80	65	135,509	21.0	144,995	6,453
81	66	138,542	20.1	148,240	6,893
82	67	141,347	19.3	151,241	7,324
83	68	143,917	18.5	153,991	7,779
84	69	146,212	17.7	156,447	8,261
85	70	148,186	16.9	158,559	8,768
86	71	149,791	16.1	160,276	9,304
87	72	150,972	15.4	161,540	9,803
88	73	151,737	14.6	162,359	10,393
89	74	151,966	13.9	162,604	10,933
90	75	151,671	13.2	162,288	11,490

Figure 13.9 (cont'd)

IRA REQUIRED MINIMUM DISTRIBUTIONS
(Spouse Beneficiary, Recalculate Both)

Age	Age	Account Balance	Table VI (R)	Balance Plus 7%	RMD
91	76	$150,798	12.5	$161,354	$12,064
92	77	149,290	11.9	159,740	12,545
93	78	147,195	11.3	157,499	13,026
94	79	144,473	10.6	154,586	13,630
95	80	140,956	10.1	150,823	13,956
96	81	136,867	9.5	146,448	14,407
97	82	132,041	8.9	141,284	14,836
98	83	126,448	8.4	135,299	15,053
99	84	120,246	7.9	128,663	15,221
100	85	113,442	7.4	121,383	15,330
101	86	106,053	6.9	113,477	15,370
102	87	98,107	6.5	104,974	15,093
103	88	89,881	6.1	96,173	14,735
104	89	81,438	5.7	87,139	14,287
105	90	72,852	5.3	77,952	13,746
106	91	64,206	5.0	68,700	12,841
107	92	55,859	4.6	59,769	12,143
108	93	47,626	4.3	50,960	11,076
109	94	39,884	4.1	42,676	9,728
110	95	32,948	3.8	35,254	8,671
111	96	26,583	3.5	28,444	7,595
112	97	20,849	3.3	22,308	6,318
113	98	15,990	3.1	17,109	5,158
114	99	11,951	2.8	12,788	4,268
115	100	8,520	2.7	9,116	3,156
116	101	5,960	2.5	6,377	2,384
117	102	3,993	2.3	4,273	1,736
118	103	2,537	2.1	2,715	1,208
119	104	1,507	1.9	1,612	793
120	105	819	1.8	876	455
121	106	421	1.6	450	263
122	107	187	1.4	200	134
123	108	66	1.3	71	51
124	109	20	1.1	21	18
125	110	3	1.0	3	3

Figure 13.10

SPOUSE BENEFICIARY, RECALCULATE BOTH, DEATH SIMULTANEOUS

This figure is an example of using the recalculation method for both the owner and the spouse of the owner. The owner's starting age is 70 (an owner born in the second half of the year would have a starting age of 71), the spouse is age 55, and the starting IRA account balance is $100,000. If the owner and beneficiary both use the recalculation method and die simultaneously at ages 85 and 70, respectively, the life expectancy drops to zero for the next year and the entire IRA account balance must be distributed in that year.

IRA REQUIRED MINIMUM DISTRIBUTIONS

(Spouse Beneficiary, Recalculate Both)
(Death of Owner: 85; Death of Beneficiary: 70)

Age	Age	Account Balance	Table VI (R)	Balance Plus 7%	RMD
70	55	$100,000	29.9	$107,000	$3,344
71	56	103,656	29.0	110,912	3,574
72	57	107,338	28.1	114,852	3,820
73	58	111,032	27.1	118,804	4,097
74	59	114,707	26.2	122,736	4,378
75	60	118,358	25.3	126,643	4,678
76	61	121,965	24.4	130,503	4,999
77	62	125,504	23.6	134,289	5,318
78	63	128,971	22.7	137,999	5,682
79	64	132,317	21.8	141,579	6,070
80	65	135,509	21.0	144,995	6,453
81	66	138,542	20.1	148,240	6,893
82	67	141,347	19.3	151,241	7,324
83	68	143,917	18.5	153,991	7,779
84	69	146,212	17.7	156,447	8,261
85	70	148,186	16.9	158,559	8,768
86	71	149,791	0.0	160,276	160,276

Figure 13.11

SPOUSE BENEFICIARY, RECALCULATE BOTH, OWNER DIES FIRST

This figure is an example of using the recalculation method for both the owner and the spouse of the owner. The owner's starting age is 70 (an owner born in the second half of the year would have a starting age of 71), the spouse is age 55, and the starting IRA account balance is $100,000. The owner dies first at age 85. The Table V life expectancy for the spouse age 71 is used for the year after the owner's death and equals 15.3; the following year age 72 is used and life expectancy equals 14.6. When the beneficiary dies at age 75, life expectancy drops to zero for the next year and the entire IRA account balance must be distributed in that year.

If the spouse of the IRA owner survives the owner and receives the entire IRA, the spouse can elect to treat the IRA as the spouse's own. In such case, the IRA calculation can begin all over again using whatever method (e.g., recalculation or "subtract one" for surviving spouse) is desired.

IRA REQUIRED MINIMUM DISTRIBUTIONS

(Spouse Beneficiary, Recalculate Both)
(Death of Owner: 85; Death of Beneficiary: 75)

Age	Age	Account Balance	Table VI (R)	Balance Plus 7%	RMD
70	55	$100,000	29.9	$107,000	$3,344
71	56	103,656	29.0	110,912	3,574
72	57	107,338	28.1	114,852	3,820
73	58	111,032	27.1	118,804	4,097
74	59	114,707	26.2	122,736	4,378
75	60	118,358	25.3	126,643	4,678
76	61	121,965	24.4	130,503	4,999
77	62	125,504	23.6	134,289	5,318
78	63	128,971	22.7	137,999	5,682
79	64	132,317	21.8	141,579	6,070
80	65	135,509	21.0	144,995	6,453
81	66	138,542	20.1	148,240	6,893
82	67	141,347	19.3	151,241	7,324
83	68	143,917	18.5	153,991	7,779
84	69	146,212	17.7	156,447	8,261
85	70	148,186	16.9	158,559	8,768
86	71	149,791	15.3	160,276	9,790
87	72	150,486	14.6	161,020	10,307
88	73	150,713	13.9	161,263	10,843
89	74	150,420	13.2	160,949	11,395
90	75	149,554	12.5	160,023	11,964
91	76	148,059	0.0	158,423	158,423

Figure 13.12

SPOUSE BENEFICIARY, RECALCULATE BOTH, SPOUSE DIES FIRST

This figure is an example of using the recalculation method for both the owner and the spouse of the owner. The owner's starting age is 70 (an owner born in the second half of the year would have a starting age of 71), the spouse is age 55, and the starting IRA account balance is $100,000. The beneficiary dies first at age 70. The Table V life expectancy for the owner age 86 is used for the year after the beneficiary's death and equals 6.5; the following year age 87 is used and life expectancy equals 6.1. When the owner dies at age 90, life expectancy drops to zero for the next year and the entire IRA account balance must be distributed in that year.

IRA REQUIRED MINIMUM DISTRIBUTIONS

(Spouse Beneficiary, Recalculate Both)
(Death of Owner: 90; Death of Beneficiary: 70)

Age	Age	Account Balance	Table VI (R)	Balance Plus 7%	RMD
70	55	$100,000	29.9	$107,000	$3,344
71	56	103,656	29.0	110,912	3,574
72	57	107,338	28.1	114,852	3,820
73	58	111,032	27.1	118,804	4,097
74	59	114,707	26.2	122,736	4,378
75	60	118,358	25.3	126,643	4,678
76	61	121,965	24.4	130,503	4,999
77	62	125,504	23.6	134,289	5,318
78	63	128,971	22.7	137,999	5,682
79	64	132,317	21.8	141,579	6,070
80	65	135,509	21.0	144,995	6,453
81	66	138,542	20.1	148,240	6,893
82	67	141,347	19.3	151,241	7,324
83	68	143,917	18.5	153,991	7,779
84	69	146,212	17.7	156,447	8,261
85	70	148,186	16.9	158,559	8,768
86	71	149,791	6.5	160,276	23,045
87	72	137,231	6.1	146,837	22,497
88	73	124,340	5.7	133,044	21,814
89	74	111,230	5.3	119,016	20,987
90	75	98,029	5.0	104,891	19,606
91	76	85,285	0.0	91,255	91,255

Figure 13.13

SPOUSE BENEFICIARY, NO RECALCULATION

This figure is an example of using the "subtract one," or "no recalculation," method for both the owner and the spouse. The owner's starting age is 70 (an owner born in the second half of the year would have a starting age of 71), the spouse's age is 55, and the starting IRA account balance is $100,000. The Table VI factor for a person age 70 and a person age 55 equals 29.9. Adding interest at 7 percent to the starting account balance produces a "balance plus 7 percent" equal to $107,000 ($100,000 x 1.07). The required minimum distribution equals $3,344 ($100,000 ÷ 29.9).

The account balance as of the end of the first year is $103,656 ($107,000 - $3,344). The "subtract one" factor for the second year equals 28.9 (29.9 - 1). Adding interest at 7 percent to the account balance produces a "balance plus 7 percent" equal to $110,912 ($103,656 x 1.07). The required minimum distribution equals $3,587 ($103,656 ÷ 28.9). If the owner and the spouse both use the "subtract one" method, and either the owner or the spouse, or both, die, the required minimum distributions continue the same as if death had not occurred.

If the spouse of the IRA owner survives the owner and receives the entire IRA, the spouse can elect to treat the IRA as the spouse's own. In such case, the IRA calculation can begin all over again using whatever method (e.g., recalculation or "subtract one" for surviving spouse) is desired.

IRA REQUIRED MINIMUM DISTRIBUTIONS
(Spouse Beneficiary, No Recalculation)

Age	Age	Account Balance	Table VI (S1)	Balance Plus 7%	RMD
70	55	$100,000	29.9	$107,000	$3,344
71	56	103,656	28.9	110,912	3,587
72	57	107,325	27.9	114,838	3,847
73	58	110,991	26.9	118,760	4,126
74	59	114,634	25.9	122,658	4,426
75	60	118,232	24.9	126,508	4,748
76	61	121,760	23.9	130,283	5,095
77	62	125,188	22.9	133,951	5,467
78	63	128,484	21.9	137,478	5,867
79	64	131,611	20.9	140,824	6,297
80	65	134,527	19.9	143,944	6,760
81	66	137,184	18.9	146,787	7,258
82	67	139,529	17.9	149,296	7,795
83	68	141,501	16.9	151,406	8,373
84	69	143,033	15.9	153,045	8,996
85	70	144,049	14.9	154,132	9,668
86	71	144,464	13.9	154,576	10,393

Figure 13.13 (cont'd)

IRA REQUIRED MINIMUM DISTRIBUTIONS
(Spouse Beneficiary, No Recalculation)

Age	Age	Account Balance	Table VI (S1)	Balance Plus 7%	RMD
87	72	$144,183	12.9	$154,276	$11,177
88	73	143,099	11.9	153,116	12,025
89	74	141,091	10.9	150,967	12,944
90	75	138,023	9.9	147,685	13,942
91	76	133,743	8.9	143,105	15,027
92	77	128,078	7.9	137,043	16,212
93	78	120,831	6.9	129,289	17,512
94	79	111,777	5.9	119,601	18,945
95	80	100,656	4.9	107,702	20,542
96	81	87,160	3.9	93,261	22,349
97	82	70,912	2.9	75,876	24,452
98	83	51,424	1.9	55,024	27,065
99	84	27,959	.9	29,916	29,916

Figure 13.14

SPOUSE BENEFICIARY, RECALCULATE OWNER

This figure is an example of using the recalculation method for the owner and the "subtract one," or "no recalculation," method for the spouse. The owner's starting age is 70 (an owner born in the second half of the year would have a starting age of 71), the spouse is age 55, and the starting IRA account balance is $100,000. The Table VI factor for a person age 70 and a person age 55 equals 29.9. Adding interest at 7 percent to the starting account balance produces a "balance plus 7 percent" equal to $107,000 ($100,000 x 1.07). The required minimum distribution equals $3,344 ($100,000 ÷ 29.9).

The account balance as of the end of the first year is $103,656 ($107,000 - $3,344).

The "subtract one" factor for the spouse at age 56 equals 27.6 (28.6 - 1 (Table V for age 55 is 28.6)). The deemed age of the spouse is determined by looking in Table V for the corresponding age for a life expectancy of 27.6. Because 27.6 does not match a life expectancy in Table V, age 57 is used because 27.6 falls between the life expectancy for age 56 (27.7) and age 57 (26.8) and the higher age is used where life expectancy falls between Table V factors.

The Table VI factor for a person age 71 (actual age of owner) and a person age 57 (deemed age of spouse) equals 28.2.

Adding interest at 7 percent to the account balance produces a "balance plus 7 percent" equal to $110,912 ($103,656 x 1.07).

The required minimum distribution equals $3,676 ($103,656 ÷ 28.2).

If the spouse of the IRA owner survives the owner and receives the entire IRA, the spouse can elect to treat the IRA as the spouse's own. In such case, the IRA calculation can begin all over again using whatever method (e.g., recalculation or "subtract one" for surviving spouse) is desired.

Figure 13.14 (cont'd)

IRA REQUIRED MINIMUM DISTRIBUTIONS
(Spouse Beneficiary, Recalculate Owner)

Age	Age	Account Balance	Table VI (R/S1)	Balance Plus 7%	RMD
70	55	$100,000	29.9	$107,000	$3,344
71	56	103,656	28.2	110,912	3,676
72	57	107,236	27.3	114,743	3,928
73	58	110,815	26.4	118,572	4,198
74	59	114,374	25.5	122,380	4,485
75	60	117,895	24.6	126,148	4,792
76	61	121,356	23.7	129,851	5,121
77	62	124,730	22.8	133,461	5,471
78	63	127,990	21.2	136,949	6,037
79	64	130,912	20.4	140,076	6,417
80	65	133,659	19.5	143,015	6,854
81	66	136,161	18.7	145,692	7,281
82	67	138,411	17.3	148,100	8,001
83	68	140,099	16.5	149,906	8,491
84	69	141,415	15.7	151,314	9,007
85	70	142,307	14.4	152,268	9,882
86	71	142,386	13.7	152,353	10,393
87	72	141,960	12.4	151,897	11,448
88	73	140,449	11.8	150,280	11,902
89	74	138,378	10.7	148,064	12,933
90	75	135,131	9.6	144,590	14,076
91	76	130,514	8.7	139,650	15,002
92	77	124,648	7.8	133,373	15,981
93	78	117,392	6.8	125,609	17,264
94	79	108,345	5.9	115,929	18,364
95	80	97,565	5.1	104,395	19,130
96	81	85,265	4.3	91,234	19,829
97	82	71,405	3.6	76,403	19,835
98	83	56,568	3.1	60,528	18,248
99	84	42,280	2.8	45,240	15,100
100	85	30,140	2.7	32,250	11,163
101	86	21,087	2.5	22,563	8,435
102	87	14,128	2.3	15,117	6,143
103	88	8,974	2.1	9,602	4,273
104	89	5,329	1.9	5,702	2,805
105	90	2,897	1.8	3,100	1,609
106	91	1,491	1.6	1,595	932
107	92	663	1.4	709	474
108	93	235	1.3	251	181
109	94	70	1.1	75	64
110	95	11	1.0	12	11
111	96	1	.9	1	1

Figure 13.15

SPOUSE BENEFICIARY, RECALCULATE OWNER, OWNER DIES FIRST

This figure is an example of using the recalculation method for the owner and the "subtract one," or "no recalculation," method for the spouse, and the owner dies. The owner's starting age is 70 (an owner born in the second half of the year would have a starting age of 71), the spouse is age 55, and the starting IRA account balance is $100,000.

After the owner dies at age 85, the factor changes to a "subtract one" calculation for the spouse. The "subtract one" factor for the spouse at age 71 equals 12.6 [28.6 - 16 elapsed years (28.6 equals Table V for age 55)].

If the spouse of the IRA owner survives the owner and receives the entire IRA, the spouse can elect to treat the IRA as the spouse's own. In such case, the IRA calculation can begin all over again using whatever method (e.g., recalculation or "subtract one" for surviving spouse) is desired.

IRA REQUIRED MINIMUM DISTRIBUTIONS

(Spouse Beneficiary, Recalculate Owner)
(Death of Owner: 85; Death of Beneficiary: 75)

Age	Age	Account Balance	Table VI (R/S1)	Balance Plus 7%	RMD
70	55	$100,000	29.9	$107,000	$3,344
71	56	103,656	28.2	110,912	3,676
72	57	107,236	27.3	114,743	3,928
73	58	110,815	26.4	118,572	4,198
74	59	114,374	25.5	122,380	4,485
75	60	117,895	24.6	126,148	4,792
76	61	121,356	23.7	129,851	5,121
77	62	124,730	22.8	133,461	5,471
78	63	127,990	21.2	136,949	6,037
79	64	130,912	20.4	140,076	6,417
80	65	133,659	19.5	143,015	6,854
81	66	136,161	18.7	145,692	7,281
82	67	138,411	17.3	148,100	8,001
83	68	140,099	16.5	149,906	8,491
84	69	141,415	15.7	151,314	9,007
85	70	142,307	14.4	152,268	9,882
86	71	142,386	12.6	152,353	11,300
87	72	141,053	11.6	150,927	12,160
88	73	138,767	10.6	148,481	13,091
89	74	135,390	9.6	144,867	14,103
90	75	130,764	8.6	139,917	15,205
91	76	124,712	7.6	133,442	16,409
92	77	117,033	6.6	125,225	17,732
93	78	107,493	5.6	115,018	19,195

Figure 13.15 (cont'd)

IRA REQUIRED MINIMUM DISTRIBUTIONS
(Spouse Beneficiary, Recalculate Owner)
(Death of Owner: 85; Death of Beneficiary: 75)

Age	Age	Account Balance	Table VI (R/S1)	Balance Plus 7%	RMD
94	79	$95,823	4.6	$102,531	$20,831
95	80	81,700	3.6	87,419	22,694
96	81	64,725	2.6	69,256	24,894
97	82	44,362	1.6	47,467	27,726
98	83	19,741	.6	21,123	21,123

Figure 13.16

SPOUSE BENEFICIARY, RECALCULATE BENEFICIARY

This figure is an example of using the "subtract one," or "no recalculation," method for the owner and the recalculation method for the spouse. The owner's starting age is 70 (an owner born in the second half of the year would have a starting age of 71), the spouse is age 55, and the starting IRA account balance is $100,000. The Table VI factor for a person age 70 and a person age 55 equals 29.9. Adding interest at 7 percent to the starting account balance produces a "balance plus 7 percent" equal to $107,000 ($100,000 x 1.07). The required minimum distribution equals $3,344 ($100,000 ÷ 29.9).

The account balance as of the end of the first year is $103,656 ($107,000 - $3,344).

The "subtract one" factor for the owner at age 71 equals 15.0 (16.0 - 1 (Table V for age 70 is 16.0)). The deemed age of the owner is determined by looking in Table V for the corresponding age for a life expectancy of 15.0. Because 15.0 does not match a life expectancy in Table V, age 72 is used because 15.0 falls between the life expectancy for age 71 (15.3) and age 72 (14.6) and the higher age is used where life expectancy falls between Table V factors.

The Table VI factor for a person age 72 (deemed age of owner) and a person age 56 (actual age of spouse) equals 28.8.

Adding interest at 7 percent to the account balance produces a "balance plus 7 percent" equal to $110,912 ($103,656 x 1.07).

The required minimum distribution equals $3,599 ($103,656 ÷ 28.8).

If the spouse of the IRA owner survives the owner and receives the entire IRA, the spouse can elect to treat the IRA as the spouse's own. In such case, the IRA calculation can begin all over again using whatever method (e.g., recalculation or "subtract one" for surviving spouse) is desired.

IRA REQUIRED MINIMUM DISTRIBUTIONS
(Spouse Beneficiary, Recalculate Spouse)

Age	Age	Account Balance	Table VI (S1/R)	Balance Plus 7%	RMD
70	55	$100,000	29.9	$107,000	$3,344
71	56	103,656	28.8	110,912	3,599
72	57	107,313	27.9	114,825	3,846
73	58	110,979	26.9	118,748	4,126
74	59	114,622	26.0	122,646	4,409
75	60	118,237	25.0	126,514	4,729
76	61	121,785	24.1	130,310	5,053
77	62	125,257	23.1	134,025	5,422
78	63	128,603	22.2	137,605	5,793
79	64	131,812	21.3	141,039	6,188

Figure 13.16 (cont'd)

IRA REQUIRED MINIMUM DISTRIBUTIONS
(Spouse Beneficiary, Recalculate Spouse)

Age	Age	Account Balance	Table VI (S1/R)	Balance Plus 7%	RMD
80	65	$134,851	20.3	$144,291	$6,643
81	66	137,648	19.4	147,283	7,095
82	67	140,188	18.5	150,001	7,578
83	68	142,423	17.7	152,393	8,046
84	69	144,347	16.9	154,451	8,541
85	70	145,910	16.1	156,124	9,063
86	71	147,061	15.3	157,355	9,612
87	72	147,743	14.6	158,085	10,119
88	73	147,966	13.9	158,324	10,645
89	74	147,679	13.2	158,017	11,188
90	75	146,829	12.5	157,107	11,746
91	76	145,361	11.9	155,536	12,215
92	77	143,321	11.2	153,353	12,797
93	78	140,556	10.6	150,395	13,260
94	79	137,135	10.0	146,734	13,714
95	80	133,020	9.5	142,331	14,002
96	81	128,329	8.9	137,312	14,419
97	82	122,893	8.4	131,496	14,630
98	83	116,866	7.9	125,047	14,793
99	84	110,254	7.4	117,972	14,899
100	85	103,073	6.9	110,288	14,938
101	86	95,350	6.5	102,025	14,669
102	87	87,356	6.1	93,471	14,321
103	88	79,150	5.7	84,691	13,886
104	89	70,805	5.3	75,761	13,359
105	90	62,402	5.0	66,770	12,480
106	91	54,290	4.7	58,090	11,551
107	92	46,539	4.4	49,797	10,577
108	93	39,220	4.1	41,965	9,566
109	94	32,399	3.9	34,667	8,307
110	95	26,360	3.7	28,205	7,124
111	96	21,081	3.4	22,557	6,200
112	97	16,357	3.2	17,502	5,112
113	98	12,390	3.0	13,257	4,130
114	99	9,127	2.8	9,766	3,260
115	100	6,506	2.7	6,961	2,410
116	101	4,551	2.5	4,870	1,820
117	102	3,050	2.3	3,264	1,326
118	103	1,938	2.1	2,074	923
119	104	1,151	1.9	1,232	606
120	105	626	1.8	670	348
121	106	322	1.6	345	201
122	107	144	1.4	154	103
123	108	51	1.3	55	39
124	109	16	1.1	17	15
125	110	2	1.0	2	2

Figure 13.17

SPOUSE BENEFICIARY, RECALCULATE BENEFICIARY, BENEFICIARY DIES FIRST

This figure is an example of using the "subtract one," or "no recalculation," method for the owner and the recalculation method for the spouse, and the spouse dies. The owner's starting age is 70 (an owner born in the second half of the year would have a starting age of 71), the spouse is age 55, and the starting IRA account balance is $100,000.

After the beneficiary dies at age 70, the factor changes to a "subtract one" calculation for the owner. The "subtract one" factor for the owner at age 86 equals 0 (16.0 - 16 elapsed years (16.0 equals Table V for age 70)).

IRA REQUIRED MINIMUM DISTRIBUTIONS

(Spouse Beneficiary, Recalculate Spouse)
(Death of Owner: 90; Death of Beneficiary: 70)

Age	Age	Account Balance	Table VI (S1/R)	Balance Plus 7%	RMD
70	55	$100,000	29.9	$107,000	$3,344
71	56	103,656	28.8	110,912	3,599
72	57	107,313	27.9	114,825	3,846
73	58	110,979	26.9	118,748	4,126
74	59	114,622	26.0	122,646	4,409
75	60	118,237	25.0	126,514	4,729
76	61	121,785	24.1	130,310	5,053
77	62	125,257	23.1	134,025	5,422
78	63	128,603	22.2	137,605	5,793
79	64	131,812	21.3	141,039	6,188
80	65	134,851	20.3	144,291	6,643
81	66	137,648	19.4	147,283	7,095
82	67	140,188	18.5	150,001	7,578
83	68	142,423	17.7	152,393	8,046
84	69	144,347	16.9	154,451	8,541
85	70	145,910	16.1	156,124	9,063
86	71	147,061	0.0	157,355	157,355

Owner and NonSpouse Beneficiary Calculations

Required minimum distribution calculations based upon the owner's and the nonspouse's lives are generally used where a traditional, SEP, or SIMPLE IRA owner has attained age 70½ and the designated beneficiary is other than the spouse of the owner. (Roth IRA distributions can be postponed until the death of the IRA owner and, generally, the death of the spouse of the owner and would be based on one life, the beneficiary's.)

In the case of a traditional, SEP, or SIMPLE IRA owner, the starting age for the owner for purposes of these calculations is 70 where the IRA owner's birthday is in the first half of the year, and age 71 where the IRA owner's birthday is in the second half of the year.

The IRA owner can use either a recalculation or a "subtract one," or "no recalculation," method. Only the "subtract one," or "no recalculation," method can be used for the nonspouse beneficiary. Thus, the methods available here include recalculate owner (R/S1) or no recalculation (S1).

In addition, where there is a beneficiary who is not the spouse of the IRA owner, distributions required from a traditional, SEP, or SIMPLE IRA while the IRA owner is alive are subject to the minimum distribution incidental benefit (MDIB) rule. The MDIB rule treats a designated beneficiary other than the spouse of the IRA owner as no more than 10 years younger than the IRA owner (using a table adapted from Table VI, see Table A, above). If the amount determined under the minimum distribution incidental benefit rule is higher than the regular required minimum distribution, the higher amount is required to be distributed. This is accomplished by using the lower of the regular required minimum distribution factor (calculating normally, using either the recalculation method or the "subtract one" method for the owner, and the "subtract one" method for the beneficiary) or the MDIB factor. After the death of the owner, the MDIB rule no longer applies.

Figures 13.18 through 13.21 show a number of examples of required minimum distribution calculations where the other beneficiary is not the spouse, including recalculation or nonrecalculation of the owner, the application of the MDIB rule, and the effect of death.

Figure 13.18

NONSPOUSE BENEFICIARY, NO RECALCULATION

This figure is an example of using the "subtract one," or "no recalculation," method for both the owner and a beneficiary who is not the spouse of the owner. The owner's starting age is 70 (an owner born in the second half of the year would have a starting age of 71), the beneficiary's age is 55, and the starting IRA account balance is $100,000.

The Table VI factor for a person age 70 and a person age 55 equals 29.9. The MDIB factor for a person age 70 and person age 60 (10 year difference) equals 26.2. The lesser of the two factors, 26.2, is used.

Adding interest at 7 percent to the starting account balance produces a "balance plus 7 percent" equal to $107,000 ($100,000 x 1.07).

The required minimum distribution equals $3,817 ($100,000 ÷ 26.2).

The account balance as of the end of the first year is $103,183 ($107,000 - $3,817).

The "subtract one" factor for the second year equals 28.9 (29.9 - 1). The MDIB factor for a person age 71 and person age 61 (10 year difference) equals 25.3. The lesser of the two factors, 25.3, is used.

Adding interest at 7 percent to the account balance produces a "balance plus 7 percent" equal to $110,406 ($103,183 x 1.07).

The required minimum distribution equals $4,078 ($103,183 ÷ 25.3).

Note that when the owner reaches age 89 and beneficiary age 74, there is a crossover from use of the MDIB factors to use of the regular required minimum distribution factors. The "subtract one" factor for that year equals 10.9 (29.9 - 19 elapsed years). The MDIB factor for a person age 89 and person age 79 (10 year difference) equals 11.1. The lesser of the two factors, 10.9, is used.

If the beneficiary dies, the required minimum distributions continue the same as if death had not occurred.

Figure 13.18 (cont'd)

IRA REQUIRED MINIMUM DISTRIBUTIONS
(NonSpouse Beneficiary, No Recalculation)

Age	Age	Account Balance	Table VI (S1)	Balance Plus 7%	RMD
70	55	$100,000	26.2	$107,000	$3,817
71	56	103,183	25.3	110,406	4,078
72	57	106,328	24.4	113,771	4,358
73	58	109,413	23.5	117,072	4,656
74	59	112,416	22.7	120,285	4,952
75	60	115,333	21.8	123,406	5,291
76	61	118,115	20.9	126,383	5,651
77	62	120,732	20.1	129,183	6,007
78	63	123,176	19.2	131,798	6,415
79	64	125,383	18.4	134,160	6,814
80	65	127,346	17.6	136,260	7,236
81	66	129,024	16.8	138,056	7,680
82	67	130,376	16.0	139,502	8,148
83	68	131,354	15.3	140,549	8,585
84	69	131,964	14.5	141,201	9,101
85	70	132,100	13.8	141,347	9,572
86	71	131,775	13.1	140,999	10,059
87	72	130,940	12.4	140,106	10,560
88	73	129,546	11.8	138,614	10,978
89	74	127,636	10.9	136,571	11,710
90	75	124,861	9.9	133,601	12,612
91	76	120,989	8.9	129,458	13,594
92	77	115,864	7.9	123,974	14,666
93	78	109,308	6.9	116,960	15,842
94	79	101,118	5.9	108,196	17,139
95	80	91,057	4.9	97,431	18,583
96	81	78,848	3.9	84,367	20,217
97	82	64,150	2.9	68,641	22,121
98	83	46,520	1.9	49,776	24,484
99	84	25,292	.9	27,062	27,062

Figure 13.19

NONSPOUSE BENEFICIARY, NO RECALCULATION, OWNER DIES FIRST

This figure is an example of using the "subtract one," or "no recalculation," method for both the owner and a beneficiary who is not the spouse of the owner, and the owner dies. The owner's starting age is 70 (an owner born in the second half of the year would have a starting age of 71), the beneficiary's age is 55, and the starting IRA account balance is $100,000.

After the owner dies at age 85, the factor changes to the "subtract one" calculation (the MDIB rule no longer applies after the owner's death). The "subtract one" factor for the owner at age 86 and the beneficiary at age 71 equals 13.9 [29.9 - 16 elapsed years (29.9 equals the Table VI factor for ages 70 and 55)].

IRA REQUIRED MINIMUM DISTRIBUTIONS

(NonSpouse Beneficiary, No Recalculation)
(Death of Owner: 85; Death of Beneficiary: 75)

Age	Age	Account Balance	Table VI (S1)	Balance Plus 7%	RMD
70	55	$100,000	26.2	$107,000	$3,817
71	56	103,183	25.3	110,406	4,078
72	57	106,328	24.4	113,771	4,358
73	58	109,413	23.5	117,072	4,656
74	59	112,416	22.7	120,285	4,952
75	60	115,333	21.8	123,406	5,291
76	61	118,115	20.9	126,383	5,651
77	62	120,732	20.1	129,183	6,007
78	63	123,176	19.2	131,798	6,415
79	64	125,383	18.4	134,160	6,814
80	65	127,346	17.6	136,260	7,236
81	66	129,024	16.8	138,056	7,680
82	67	130,376	16.0	139,502	8,148
83	68	131,354	15.3	140,549	8,585
84	69	131,964	14.5	141,201	9,101
85	70	132,100	13.8	141,347	9,572
86	71	131,775	13.9	140,999	9,480
87	72	131,519	12.9	140,725	10,195
88	73	130,530	11.9	139,667	10,969
89	74	128,698	10.9	137,707	11,807
90	75	125,900	9.9	134,713	12,717
91	76	121,996	8.9	130,536	13,707
92	77	116,829	7.9	125,007	14,788
93	78	110,219	6.9	117,934	15,974
94	79	101,960	5.9	109,097	17,281
95	80	91,816	4.9	98,243	18,738
96	81	79,505	3.9	85,070	20,386
97	82	64,684	2.9	69,212	22,305
98	83	46,907	1.9	50,190	24,688
99	84	25,502	.9	27,287	27,287

Figure 13.20

NONSPOUSE BENEFICIARY, RECALCULATE OWNER

This figure is an example of using the recalculation method for the owner and the "subtract one," or "no recalculation," method for a beneficiary who is not the spouse. The owner's starting age is 70 (an owner born in the second half of the year would have a starting age of 71), the beneficiary is age 55, and the starting IRA account balance is $100,000.

The Table VI factor for a person age 70 and a person age 55 equals 29.9. The MDIB factor for a person age 70 and person age 60 (10 year difference) equals 26.2. The lesser of the two factors, 26.2, is used.

Adding interest at 7 percent to the starting account balance produces a "balance plus 7 percent" equal to $107,000 ($100,000 x 1.07).

The required minimum distribution equals $3,817 ($100,000 ÷ 26.2).

The account balance as of the end of the first year is $103,183 ($107,000 - $3,817).

The "subtract one" factor for the beneficiary at age 56 equals 27.6 (28.6 - 1 (Table V for age 55 is 28.6)). The deemed age of the beneficiary is determined by looking in Table V for the corresponding age for a life expectancy of 27.6. Because 27.6 does not match a life expectancy in Table V, age 57 is used because 27.6 falls between the life expectancy for age 56 (27.7) and age 57 (26.8) and the higher age is used where life expectancy falls between Table V factors. The Table VI factor for a person age 71 (actual age of owner) and a person age 57 (deemed age of beneficiary) equals 28.2. The MDIB factor for a person age 71 and person age 61 (10 year difference) equals 25.3. The lesser of the two factors, 25.3, is used.

Adding interest at 7 percent to the account balance produces a "balance plus 7 percent" equal to $110,406 ($103,183 x 1.07).

The required minimum distribution equals $4,078 ($103,183 ÷ 25.3).

Note that when the owner reaches age 89 and beneficiary age 74, there is a crossover from use of the MDIB factors to use of the regular required minimum distribution factors. The "subtract one" factor for the beneficiary at age 74 equals 9.6 [28.6 - 19 elapsed years (Table V factor for age 55 is 28.6)]. The deemed age of the beneficiary is determined by looking in Table V for the corresponding age for a life expectancy of 9.6. Because 9.6 does not match a life expectancy in Table V, age 80 is used because 9.6 falls between the life expectancy for age 79 (10.0) and age 80 (9.5) and the higher age is used where life expectancy falls between Table V factors. The Table VI factor for a person age 89 (actual age of owner) and a person age 80 (deemed age of beneficiary) equals 10.7. The MDIB factor for a person age 89 and person age 79 (10 year difference) equals 11.1. The lesser of the two factors, 10.7, is used.

If the beneficiary dies, the required minimum distributions continue the same as if death had not occurred.

Figure 13.20 (cont'd)

IRA REQUIRED MINIMUM DISTRIBUTIONS
(NonSpouse Beneficiary, Recalculate Owner)

Age	Age	Account Balance	Table VI (R/S1)	Balance Plus 7%	RMD
70	55	$100,000	26.2	$107,000	$3,817
71	56	103,183	25.3	110,406	4,078
72	57	106,328	24.4	113,771	4,358
73	58	109,413	23.5	117,072	4,656
74	59	112,416	22.7	120,285	4,952
75	60	115,333	21.8	123,406	5,291
76	61	118,115	20.9	126,383	5,651
77	62	120,732	20.1	129,183	6,007
78	63	123,176	19.2	131,798	6,415
79	64	125,383	18.4	134,160	6,814
80	65	127,346	17.6	136,260	7,236
81	66	129,024	16.8	138,056	7,680
82	67	130,376	16.0	139,502	8,148
83	68	131,354	15.3	140,549	8,585
84	69	131,964	14.5	141,201	9,101
85	70	132,100	13.8	141,347	9,572
86	71	131,775	13.1	140,999	10,059
87	72	130,940	12.4	140,106	10,560
88	73	129,546	11.8	138,614	10,978
89	74	127,636	10.7	136,571	11,929
90	75	124,642	9.6	133,367	12,984
91	76	120,383	8.7	128,810	13,837
92	77	114,973	7.8	123,021	14,740
93	78	108,281	6.8	115,861	15,924
94	79	99,937	5.9	106,933	16,938
95	80	89,995	5.1	96,295	17,646
96	81	78,649	4.3	84,154	18,290
97	82	65,864	3.6	70,474	18,296
98	83	52,178	3.1	55,830	16,832
99	84	38,998	2.8	41,728	13,928
100	85	27,800	2.7	29,746	10,296
101	86	19,450	2.5	20,812	7,780
102	87	13,032	2.3	13,944	5,666
103	88	8,278	2.1	8,857	3,942
104	89	4,915	1.9	5,259	2,587
105	90	2,672	1.8	2,859	1,484
106	91	1,375	1.6	1,471	859
107	92	612	1.4	655	437
108	93	218	1.3	233	168
109	94	65	1.1	70	59
110	95	11	1.0	12	11
111	96	1	.9	1	1

Figure 13.21

NONSPOUSE BENEFICIARY, RECALCULATE OWNER, OWNER DIES FIRST

This figure is an example of using the recalculation method for the owner and the "subtract one," or "no recalculation," method for a beneficiary who is not the spouse, and the owner dies. The owner's starting age is 70 (an owner born in the second half of the year would have a starting age of 71), the beneficiary is age 55, and the starting IRA account balance is $100,000.

After the owner dies at age 85, the factor changes to the "subtract one" calculation for the beneficiary (and the MDIB rule no longer applies after the owner's death). The "subtract one" factor for the beneficiary at age 71 equals 12.6 [28.6 - 16 elapsed years (28.6 equals the Table V factor for age 55)].

IRA REQUIRED MINIMUM DISTRIBUTIONS

(NonSpouse Beneficiary, Recalculate Owner)
(Death of Owner: 85; Death of Beneficiary: 75)

Age	Age	Account Balance	Table VI (R/S1)	Balance Plus 7%	RMD
70	55	$100,000	26.2	$107,000	$3,817
71	56	103,183	25.3	110,406	4,078
72	57	106,328	24.4	113,771	4,358
73	58	109,413	23.5	117,072	4,656
74	59	112,416	22.7	120,285	4,952
75	60	115,333	21.8	123,406	5,291
76	61	118,115	20.9	126,383	5,651
77	62	120,732	20.1	129,183	6,007
78	63	123,176	19.2	131,798	6,415
79	64	125,383	18.4	134,160	6,814
80	65	127,346	17.6	136,260	7,236
81	66	129,024	16.8	138,056	7,680
82	67	130,376	16.0	139,502	8,148
83	68	131,354	15.3	140,549	8,585
84	69	131,964	14.5	141,201	9,101
85	70	132,100	13.8	141,347	9,572
86	71	131,775	12.6	140,999	10,458
87	72	130,541	11.6	139,679	11,254
88	73	128,425	10.6	137,415	12,116
89	74	125,299	9.6	134,070	13,052
90	75	121,018	8.6	129,489	14,072
91	76	115,417	7.6	123,496	15,186
92	77	108,310	6.6	115,892	16,411
93	78	99,481	5.6	106,445	17,764
94	79	88,681	4.6	94,889	19,278
95	80	75,611	3.6	80,904	21,003
96	81	59,901	2.6	64,094	23,039
97	82	41,055	1.6	43,929	25,659
98	83	18,270	.6	19,549	19,549

Annuitizing RMD Calculation

Taking distributions equal to the required minimum distribution results in uneven distributions. It may be desired to take distributions which are more even or balanced from year to year. For example, the individual may wish to keep the amount includable in income from year to year at the lowest possible tax bracket.

In any year, an amount larger than the required minimum distribution may be taken out. Taking out an amount less than the required minimum distribution is disastrous — a 50 percent penalty applies to the shortfall.

A way to balance the distributions, while still making the required minimum distributions is to essentially annuitize the distributions. See Figure 13.22.

Figure 13.22

ANNUITIZING REQUIRED MINIMUM DISTRIBUTIONS

This figure is an example of using the greater of an annuitized amount or the "subtract one," or "no recalculation," method for the owner where there is no designated beneficiary. The owner's starting age is 70 (an owner born in the second half of the year would have a starting age of 71) and the starting IRA account balance is $100,000.

The Table V factor for a person age 70 equals 16.0. Adding interest at 7 percent to the starting account balance produces a "balance plus 7 percent" equal to $107,000 ($100,000 x 1.07). The required minimum distribution equals $6,250 ($100,000 ÷ 16.0).

The Term Certain Annuity Factor for 16 years at 7 percent interest equals 9.4466 (see Appendix C). Dividing the starting account balance of $100,000 by 9.4466 results in an annual annuity payment of $10,586.

To level distributions from the IRA, the greater of the annuity payment ($10,586) or the required minimum distribution ($6,250), or $10,586, is distributed.

The account balance as of end of the first year is $96,414 ($107,000 - $10,586). The "subtract one" factor for the second year equals 15.0 (16.0 - 1). Adding interest at 7 percent to the account balance produces a "balance plus 7 percent" equal to $103,163 ($96,414 x 1.07). The required minimum distribution equals $6,428 ($96,414 ÷ 15.0). To level distributions from the IRA, the greater of the

Figure 13.22 (cont'd)

annuity payment ($10,586) or the required minimum distribution ($6,428), or $10,586, is distributed.

At the end of 16 years, the entire IRA account has been distributed in substantially equal payments that satisfy the required minimum distribution rules.

IRA REQUIRED MINIMUM DISTRIBUTIONS
(No Recalculation)

Age	Account Balance	Table V (S1)	Balance Plus 7%	RMD	Distribution
70	$100,000	16	$107,000	$6,250	$10,586
71	96,414	15	103,163	6,428	10,586
72	92,577	14	99,057	6,613	10,586
73	88,471	13	94,664	6,805	10,586
74	84,078	12	89,963	7,007	10,586
75	79,377	11	84,933	7,216	10,586
76	74,347	10	79,551	7,435	10,586
77	68,965	9	73,793	7,663	10,586
78	63,207	8	67,631	7,901	10,586
79	57,045	7	61,038	8,149	10,586
80	50,452	6	53,984	8,409	10,586
81	43,398	5	46,436	8,680	10,586
82	35,850	4	38,360	8,963	10,586
83	27,774	3	29,718	9,258	10,586

CHAPTER ENDNOTES

1. Notice 89-25(A-12), 1989-1 CB 662.
2. IRC Sec. 408A(c)(5).
3. IRC Secs. 530(b)(1)(E), 530(d)(8).
4. IRC Secs. 408(a)(6), 408(b)(3), 401(a)(9), 4974(a).
5. Prop. Reg. §1.401(a)(9)-2(A-4).
6. Notice 88-38, 1988-1 CB 524.
7. IRC Sec. 401(a)(9)(B)(ii); Prop. Reg. §1.401(a)(9)-1(C-2).
8. IRC Sec. 401(a)(9)(B)(iii); Prop. Reg. §1.401(a)(9)-1(C-3).

Chapter 14

CHOOSING A BENEFICIARY

It is important that an IRA owner name a beneficiary or beneficiaries to receive IRA distributions when the IRA owner dies. First, the IRA owner should name a beneficiary so that when the IRA owner dies the IRA goes to the person the IRA owner would most like to benefit. Second, naming a beneficiary permits required minimum distributions to be made for the life expectancies of the IRA owner and the beneficiary, rather than just for the life expectancy of the IRA owner. Third, if the IRA owner dies before minimum distributions are required, having a beneficiary named permits distributions to be made for the life expectancy of the beneficiary, rather than requiring that the IRA account be distributed within five years. Fourth, naming a spouse as beneficiary can be especially useful for required minimum distribution purposes as well as for estate tax purposes. Finally, naming a trust such as a credit shelter trust or a marital deduction trust as beneficiary can be important from an estate planning perspective. In the case of an Education IRA, naming a new beneficiary who is under 30 years of age and who is related to the old beneficiary can be used to prevent a deemed distribution when the old beneficiary reaches age 30 or dies.

An IRA beneficiary may generally be either a specified person, a member of some ascertainable class of persons, a charity, or a trust benefiting one or more of the foregoing. For example, a class of beneficiaries might be the children of the grantor. Note that where there is more than one concurrent beneficiary, the required minimum distribution rules use the age of the oldest beneficiary. An Education IRA can have only one beneficiary at a time.

The IRA owner may want to provide for contingent interests as well as succeeding interests. For example, the IRA may wish to provide for IRA distributions to A, only if A is alive when IRA owner dies, otherwise to B. Or the IRA owner may wish to provide for distributions to A while A is alive, and then to B.

Technically, a trust cannot be a designated beneficiary of an IRA for minimum required distributions purposes. However, the beneficiaries of a trust will be treated as designated beneficiaries if distributions from the IRA are to be made to the trust and, as of the later of the date on which the trust is named beneficiary or the required beginning date, and for all subsequent periods for which the trust is named beneficiary:

(1) the trust is valid under state law (or would be but for the lack of corpus);

(2) the trust is irrevocable, or becomes so upon death of the grantor;

(3) the trust beneficiaries of the IRA are identifiable;

(4) the trustee either provides a list of the beneficiaries or a copy of the trust document itself to the IRA administrator (and agrees to provide any later changes in the document to the IRA administrator).

Similar rules apply to a trust which is a beneficiary of another trust.[1]

One advantage of having a spouse as beneficiary of a traditional, SEP IRA, or SIMPLE IRA is that the minimum distribution incidental benefit (MDIB) rule does not apply where the spouse is the beneficiary. (The MDIB rule does not apply to a Roth IRA.) As part of the required minimum distribution rules, the MDIB rule, is designed to insure that the traditional, SEP IRA, or SIMPLE IRA distributions are primarily for the benefit of the IRA owner. The rule does this, while the IRA owner is alive, by treating a beneficiary other than the spouse of the IRA owner as no more than 10 years younger than the IRA owner.

Where the spouse of the IRA owner is named beneficiary of the IRA, after the IRA owner's death the spouse can usually elect to treat the IRA as her own for income tax purposes. The election is usually made whenever required minimum distributions can be postponed further by making the election. For example, a spouse who elects to treat the IRA owner's account as the spouse's own could postpone distributions from the IRA until after the spouse reaches age 70½, in the case of a traditional IRA, a SEP IRA, or SIMPLE IRA, or until after the spouse's death in the

case of a Roth IRA. Furthermore, the life expectancy of the spouse and a beneficiary could be used rather than the life expectancy of the IRA owner and beneficiary.

Also, where the spouse of the IRA owner is named beneficiary of the IRA and the IRA owner dies before reaching age 70½, the spouse can postpone receiving required minimum distributions until after the IRA owner would have reached age 70½. This rule can generally be taken advantage of where the IRA owner was younger than the spouse.

Where the spouse of the IRA beneficiary is named beneficiary of the IRA, the IRA can usually be made to qualify for the estate tax marital deduction. A marital deduction trust could also be the beneficiary of the IRA. See Chapter 17. The effect of using a traditional IRA, SEP IRA, or SIMPLE IRA to fund the marital deduction is generally to create a wasting asset. As the IRA is distributed to the spouse, the spouse is required to pay income taxes. Therefore, the amount remaining at the spouse's death which is subject to estate tax has been reduced by the income tax paid by the spouse.

Where a marital deduction trust or a credit shelter trust is named beneficiary of the IRA, the spouse will usually not be given an interest sufficient to allow the spouse to treat the IRA as her own. Therefore, if required minimum distributions began before the IRA owner died, distributions after death must generally continue at least as rapidly as before death. If required minimum distributions did not begin before the IRA owner died, distributions must generally be made over the life expectancy of the oldest beneficiary of the marital deduction or credit shelter trust (who is often the spouse).

A beneficiary who receives a distribution from a traditional IRA, SEP IRA, or SIMPLE IRA which is includable in income can take an income tax deduction for the estate tax attributable to the IRA being includable in the IRA owner's estate (such income would be income in respect of a decedent, or IRD). However, in many cases, a combination of a credit shelter trust and a marital deduction trust will be designed to produce no estate tax at the death of the first spouse to die and there will be no estate tax to deduct against income tax.

Children are also natural beneficiaries. A child as beneficiary generally allows required minimum distributions to be distributed

over the lifetime of the younger child. Therefore, if required minimum distributions began before the IRA owner died, distributions after death must generally continue at least as rapidly as before death. However, the distributions can be for the life expectancies of the IRA owner and the child rather than just for the IRA owner's life expectancy. If required minimum distributions did not begin before the IRA owner died, distributions must generally be made over the life expectancy of the child.

Often children are also beneficiaries of credit shelter trusts. As noted above, required minimum distributions with a trust as beneficiary use the age of the oldest beneficiary.

Grandchildren can also make great IRA beneficiaries. A grandchild is generally even younger than the spouse or a child, usually allowing required minimum distributions to be spread out even more. Making a grandchild a beneficiary also moves property down two generations, thus skipping possible estate or gift tax at the child's generation. However, naming a grandchild as IRA beneficiary generally results in a generation-skipping transfer subject to the generation-skipping transfer tax unless the IRA owner allocates his generation-skipping transfer tax exemption ($1,030,000 in 2000) to the transfer.

Even though for required minimum distribution purposes children and grandchildren generally make good beneficiaries because of their long life expectancies and the ability to stretch out distributions, it must be remembered that, while the IRA owner is alive, the minimum distribution incidental benefit (MDIB) treats a beneficiary other than the spouse of the IRA owner as no more than 10 years younger than the IRA owner. However, the MDIB rule does not apply to a Roth IRA.

A charity can also make a great IRA beneficiary. An estate tax charitable deduction would be available for the transfer to charity. Furthermore, the charity can receive distribution of the IRA without income taxation. This is generally unimportant in the case of a Roth IRA; Roth IRAs can generally be received income tax-free after the IRA owner's death even if received by a noncharitable beneficiary.

In general, an individual can have multiple IRAs or split up an IRA into multiple IRAs. The limitations on contributions still apply to the

multiple IRAs as if there was only one IRA. However, the different IRAs can be given different beneficiaries.

The use of multiple IRAs with different beneficiaries can be useful for a number of reasons. Obviously, having multiple IRAs with different beneficiaries permits the IRA owner to benefit a number of different people. Because the IRAs have different beneficiaries, the required minimum distributions for the IRAs can be different. This can be particular useful with very young beneficiaries. Also, having multiple IRAs with different beneficiaries can make it easy to qualify certain IRAs for the marital or charitable deduction by eliminating, in essence, split interests in the same property. Furthermore, for generation-skipping transfer tax purposes, the generation-skipping transfer tax exemption could be allocated to IRAs benefiting skip persons (generally, persons two or more generations younger than the transferor—e.g., a grandchild of the IRA owner), but not to IRAs with no skip persons as beneficiary (e.g., spouse or child of IRA owner is beneficiary).

CHAPTER ENDNOTES

1. Prop. Regs. §§1.401(a)(9)-1(D-5), 1.401(a)(9)-1(D-6), 1.401(a)(9)-1(D-7).

Chapter 15

MULTIPLE TAXES

When an IRA owner dies, the IRA is includable in the IRA owner's estate. In the case of a traditional IRA, a SEP IRA, or a SIMPLE IRA, distributions received by a beneficiary will generally be fully includable in income (a pro-rata portion attributable to nondeductible contributions can be excluded from income). Such IRAs are treated as income in respect of a decedent (IRD). IRD items do not receive a step up in basis at the decedent's death. However, the beneficiary is permitted to deduct from income, the amount of the estate tax attributable to the IRA being includable in the decedent's estate.

Roth IRAs are likewise includable in the IRA owner's estate. However, distributions received from a Roth IRA are received free of income tax after the IRA owner's death.

In addition, generation-skipping transfer tax may be due if the IRA passes to a skip person (generally, a person two or more generations younger than the transferor). However, the beneficiary is permitted to deduct from income, the amount of the generation-skipping transfer tax attributable to the IRA being includable in the decedent's estate.

The compound effect of these multiple taxes can be substantial. For example, if the IRA owner is in a 55 percent estate tax bracket and the beneficiary is in a 39.6 percent income tax bracket, only about 27 percent of the IRA remains after estate tax and income tax is paid.

$1.00	
- .55	($1 x 55% estate tax)
.45	
- .18	(.45 x 39.6% income tax)
.27	

If the IRA owner is in a 55 percent estate tax bracket, the transfer is subject to the 55 percent generation-skipping transfer tax, and the benefi-

ciary is in a 39.6 percent income tax bracket, only about 12 percent of the IRA remains after estate tax and income tax is paid.

$1.00	
- .55	($1 x 55% estate tax)
.45	
- .25	(.45 x 55% GST tax)
.20	
- .08	(.20 x 39.6% income tax)
.12	

The examples shown above generally represent a worst case scenario. The gross estate can be reduced by deductions such as the marital deduction. In general, the estate tax rate is lower than 55% for taxable estates of less than $3 million. The estate tax can be reduced by credits such as the unified credit. Generation-skipping transfers can be reduced by a $1,000,000 ($1,030,000 as indexed for 2000) generation-skipping transfer tax exemption. Roth IRA distributions can often be received income tax-free. Nondeductible contributions can be received tax-free. And the income tax rate could possibly be reduced by spreading the IRA distributions to the beneficiary over a number of years and thus spreading the beneficiary's taxable income over such years rather than taking one distribution which substantially increases the beneficiary's taxable income and tax bracket for such year.

This chapter is designed to show the potential cumulative effect of income taxes and transfer taxes on an IRA. The income taxation of distributions is discussed in Chapter 13, as well as elsewhere throughout this book. Gift taxation is discussed in Chapter 16, estate taxation is discussed in Chapter 17, and generation-skipping transfer taxation is discussed in Chapter 18.

Chapter 16

GIFT TAX AND IRAS

In general, gratuitous transfers of money or other property made during an individual's life are subject to federal gift tax. With respect to an IRA, a lifetime transfer can generally occur only where there is a transfer to an Education IRA for another or where there is a change in beneficiaries with respect to an Education IRA. Under certain circumstances, a gift can be made to another person for contributions to an IRA. Certain transfers pursuant to divorce are not treated as gifts. Generally, any other attempt to transfer an IRA to another would cause the IRA to cease to qualify as an IRA.

Where there is a gratuitous transfer, the $10,000 annual exclusion can be used for a gift of a present interest. Also, the marital deduction can generally be used for transfers between spouses. Otherwise, the unified credit can be used to reduce or eliminate the effect of the gift tax on the IRA transfer. Spouses may use the split-gift provisions to, in effect, utilize each other's annual exclusions and unified credit.

If an interest in an IRA is transferred from one spouse to the other in connection with a divorce or separation, a gift may be made. However, a transfer of property to either spouse in settlement for his or her marital or property rights or for child support is usually considered to have been made for full and adequate consideration in money or money's worth if two conditions are satisfied. First, the transfer must be made according to a written agreement between the husband and wife. Second, the divorce must occur within the three-year period beginning on the date one year before the agreement is entered into. Under this statutory provision, it is immaterial whether the agreement is approved by the divorce decree.[1]

A contribution to an Education IRA for a beneficiary other than the contributor is treated as a completed gift of other than a future interest for gift tax purposes. It therefore can qualify for the gift tax annual exclusion ($10,000 in 2000; $20,000 through gift-splitting with a spouse). It is not

treated as a qualified transfer for education purposes under Code section 2503(e).[2] If the aggregate amount of contributions to the beneficiary exceeds the annual exclusion for the year, the donor can elect to have such excess treated as made over the five-year period beginning with such year. If the transfer is between spouses, the marital deduction could also be used.

Note that since the maximum contribution to an Education IRA is $500 and the annual exclusion is at least $10,000, the five-year spread would appear to be of no significance unless the donor makes substantial other gifts to the donee during the year and such gifts are taken into account before the contribution to the Education IRA.

As part of the planning process, parents, assuming income limitations are met, could contribute $500 each year to an Education IRA for each of their children who is under 18 years of age. For example, if parents have four children, a total of $2,000 (4 x $500) can be contributed to Education IRAs for the children.

In the case of an Education IRA, the federal gift tax applies to a permissible change in beneficiary or rollover to a new beneficiary only if the new beneficiary is a generation below the generation of the old beneficiary.[3] It would appear that such a permissible change in beneficiary or rollover to a new beneficiary would qualify for the gift tax annual exclusion.

Where there is a desire to change the Education IRA beneficiary (e.g., the beneficiary has a full scholarship or has decided not to attend school) and the Education IRA exceeds the gift tax annual exclusion amount, it may be advisable to roll over to a new beneficiary an amount which does not exceed the annual exclusion amount in succeeding years until the entire account has been transferred to the new beneficiary. Multiple rollovers to multiple new beneficiaries may be another way to keep gifts within the annual exclusion limit. Of course, it will probably be many years before any Education IRA will have an account balance which exceeds the gift tax annual exclusion.

Example. Joe has an Education IRA which contains $15,000. Joe can roll over $15,000 to an Education IRA for his sister, Mary. Since Mary is in the same generation as Joe, there is no gift.

Example. Bob has an Education IRA which contains $15,000. Bob can roll over $10,000 to an Education IRA for his daughter, Sue, in year one, and the balance of the Education IRA in year two. The gifts qualify for the annual exclusion and no gift tax is due.

Example. Jill has an Education IRA which contains $15,000. Jill can roll over $10,000 to an Education IRA for her son, Sam, and $5,000 to an Education IRA for her daughter, Pat. The gifts qualify for the annual exclusion and no gift tax is due.

COMPUTING THE GIFT TAX

The gift tax is imposed on the value of gifts made in the calendar year after subtracting allowable exclusions and deductions. A unified credit is available to reduce the tax to the extent the credit has not been used up in a prior year.

An annual exclusion of $10,000 (as indexed for 2000) is allowed against gifts to each donee (see "Annual Exclusion," below). There is also an exclusion for "qualified transfers" for educational or medical expenses (see "Exclusion For Qualified Transfers," below).

A married couple may elect to treat a gift made by one of them to a third person as having been made one-half by each spouse. Thus, if only one spouse makes all gifts, his annual exclusions are, in effect, doubled to $20,000 (see "Split-Gifts," below). However, in the case of community property, each spouse is automatically treated as making a gift of one-half of property given to a third person.

A gift tax marital deduction may be available for a gift by a husband to his wife, or by a wife to her husband (see "Marital Deduction," below). A deduction may generally be taken for the full value of gifts made to charitable organizations (see "Charitable Deductions," below).

Because the gift tax is cumulative in effect, gifts in previous years (since June 6, 1932) must be taken into account in figuring the tax on gifts in the current calendar year. Consequently, taxable gifts in past years boost later gifts into higher brackets. (Note that the cumulative effect also applies to calculation of the federal estate tax due to unification of the gift and estate tax systems. See Chapter 17.) The gift tax is based on taxable

gifts (the balance after subtracting allowable exclusions and deductions). In general, the steps are:

(1) Compute the tax on total taxable gifts for all years, including those made in the current calendar year. The unified tax rates are increased by a 5% surtax in the case of certain large cumulative taxable transfers, see Figure 16.1.

(2) Compute the tax on gifts made in previous years, leaving out gifts in the current calendar year (use same rate schedule).

(3) Subtract (2) from (1). The difference is the gross gift tax for the current calendar year.[4]

Any available unified credit (i.e., not used in a previous year) can be subtracted from the gross gift tax to arrive at the gift tax payable (see "Unified Credit," below).

The benefit of the graduated tax rates is phased out for cumulative taxable gifts in excess of $10 million through imposition of a 5% surtax. Thus, the tentative gift tax is calculated at a 60% rate on cumulative taxable gifts from $10,000,000 to $17,184,000.

For example, assume John Smith made $200,000 of gifts during 2000 and $50,000 of the gifts qualified for the annual exclusion. John made $100,000 of taxable gifts in previous years. Figure 16.1 illustrates calculation of the gift tax and includes the gift and estate tax table.

GIFTS

In general, gratuitous transfers of money or other property made during an individual's life are subject to federal gift tax.[5] The gift tax is an excise tax on an individual's right to transfer property by gift rather than a tax on the property itself. Thus, transfers of certain bonds, notes or certificates of indebtedness of the government and income thereon which are exempt from income tax (i.e., tax-exempt obligations) are nevertheless subject to gift tax.

With respect to an IRA, a lifetime transfer could generally occur only where there is a transfer to an Education IRA for another or where there

Figure 16.1

FEDERAL GIFT TAX

Year of Gift(s)		2000
Gifts Made During Year		$200,000
Less: Annual Exclusion(s)	$50,000	
Exclusions for Qualified Transfers	$0	
Charitable Deduction	$0	
Marital Deduction	$0	($50,000)
Taxable Gifts Made During Current Year		$150,000
Taxable Gifts Made During Earlier Years		$100,000
Total Taxable Gifts		$250,000
Tax on Total Taxable Gifts		$70,800
Tax on Gifts Made During Earlier Years		($23,800)
Gross Gift Tax		$47,000
Allowable Unified Credit		($47,000)
Gift Tax Payable		$0

GIFT AND ESTATE TAX TABLE*

(before Unified Credit)

Value of Estate		Tax on	Rate on
From	To	Col. 1	Excess
$0	$10,000	$0	18%
$10,000	$20,000	$1,800	20%
$20,000	$40,000	$3,800	22%
$40,000	$60,000	$8,200	24%
$60,000	$80,000	$13,000	26%
$80,000	$100,000	$18,200	28%
$100,000	$150,000	$23,800	30%
$150,000	$250,000	$38,800	32%
$250,000	$500,000	$70,800	34%
$500,000	$750,000	$155,800	37%
$750,000	$1,000,000	$248,300	39%
$1,000,000	$1,250,000	$345,800	41%
$1,250,000	$1,500,000	$448,300	43%
$1,500,000	$2,000,000	$555,800	45%
$2,000,000	$2,500,000	$780,800	49%
$2,500,000	$3,000,000	$1,025,800	53%
$3,000,000	$10,000,000	$1,290,800	55%
$10,000,000	$17,184,000	$5,140,800	60%
$17,184,000	.....	$9,451,200	55%

* Table includes 5% additional tax on large estates. IRC Secs. 2502, 2001(c).

is a change in beneficiaries with respect to an Education IRA. A gift can be made to another person for contributions to an IRA; however, the donee must qualify to make contributions to such IRA (e.g., compensation is required for contributions for all IRAs other than the Education IRA). Certain transfers pursuant to divorce are not treated as gifts. Any other attempt to transfer an IRA to another would cause the IRA to cease to qualify as an IRA.

If an IRA is transferred in connection with a divorce or separation, the IRA owner may be treated as making a gift to the other spouse to the extent that the owner spouse does not receive full and adequate consideration.

However, a transfer of property to either spouse in settlement for his or her marital or property rights or for child support shall be considered as made for full and adequate consideration in money or money's worth if certain conditions are met. First, the transfer must be made according to a written agreement between the husband and wife. Second, the divorce must occur within the three-year period beginning on the date one year before the agreement is entered into. Under this statutory provision, it is immaterial whether the agreement is approved by the divorce decree.[6]

Also, if the transfer is made pursuant to a divorce decree and the transfer is made in exchange for a release or promised release of marital or property rights or support rights, the transfer will not be considered a gift.

Otherwise, the relinquishment or promised relinquishment of dower or curtesy, or of a statutory estate created in lieu of dower or curtesy, or of other marital rights in the spouse's property or estate, is not deemed a consideration in money or money's worth. Consequently, such transfer would be considered a gift. However, a surrender of support rights is not a surrender of "other marital rights," as that phrase is used in the regulations. Therefore, to the extent of the value of any support rights released by the transferee spouse in a separation agreement, consideration in money or money's worth will be deemed to have been given.

SPLIT-GIFTS

A husband and wife may elect to have all gifts made by either spouse to third persons during a year treated as having been made one-half by each spouse.[7] If the election is made, then gifts made by either spouse to a third

person during the year are simply split down the middle and each spouse calculates his or her separate gift tax on his or her one-half. Thus, each spouse uses his or her own annual exclusions, graduated tax rates, and unified credits.

The split-gifts provision is a useful way to assure that each spouse's annual exclusions, graduated tax rates, and unified credit are used to reduce the overall gift tax burden on the spouses, especially where one spouse owns all the property and makes all the gifts.

With regard to community property, each spouse is already treated as making a gift of one-half of the property. Thus, the split-gifts provision essentially permits gifts of non-community property to receive the same treatment accorded gifts of community property.

ANNUAL EXCLUSION

Each donor has a $10,000 (as indexed for 2000) per donee annual exclusion for gifts of a present interest.[8] A donor who splits gifts with his spouse, as discussed above, can effectively double the annual exclusion to $20,000 per donee.

For example, a donor who makes a gift of $20,000 to a donee which qualifies for the annual exclusion has made a taxable gift of $10,000 ($20,000 gift minus $10,000 annual exclusion). However, if the donor splits the $20,000 gift with his spouse, each spouse is treated as making a gift of $10,000, and no taxable gift has been made ($10,000 gift per spouse minus $10,000 annual exclusion of each spouse).

If the spouse of the donor is not a United States citizen, the annual exclusion for a transfer from the donor spouse to the non-citizen spouse is increased from $10,000 to $103,000 (as indexed for 2000) (provided the transfer would otherwise qualify for the marital deduction if the donee spouse were a United States citizen). However, the marital deduction is not available for a transfer to a spouse who is not a United States citizen, as discussed below.[9]

EXCLUSION FOR QUALIFIED TRANSFERS

An exclusion from gift tax is provided for certain qualified transfers for educational expenses or medical expenses. In order to qualify for the

exclusion, the gift must be paid on behalf of an individual as tuition to an educational organization for the education or training of such individual, or as payment for medical care to a person providing medical care to such individual.[10]

Transfers to an Education IRA use the annual exclusion, not the exclusion for qualified transfers.

CHARITABLE DEDUCTION

Gifts to qualified charitable organizations are not subject to the federal gift tax.[11] However, in order to insure that a charity actually receives the amount for which a charitable deduction is claimed, gifts of partial interests in trust must meet certain requirements.

A charitable deduction is allowed for the full amount of gifts made to or for the use of:

- the United States, any State, or any political subdivision thereof, or the District of Columbia, for exclusively public purposes;

- a corporation, or trust, or community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, or to foster national or international amateur sports competition (but only if no part of its activities involve the provision of athletic facilities or equipment), including the encouragement of art and the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual, which is not disqualified for tax exemption under Code section 501(c)(3) by attempting to influence legislation, and which does not participate or intervene in political campaigns;

- a fraternal society, order, or association, operating under the lodge system, but only if such gifts are to be used exclusively for religious, charitable, scientific, literary or educational purposes, including the encouragement of art and the prevention of cruelty to children or animals;

- posts or organizations of war veterans, or auxiliary units, or societies of any such posts or organizations, if such posts, organizations, units, or societies are organized in the United States or any of its possessions, and if no part of their earnings inures to the benefit of any private shareholder or individual.[12]

The IRS maintains lists of charities for which a taxpayer can take a charitable deduction.

Where a donor makes a gift of an interest in property (other than a remainder interest in a personal residence or farm or an undivided portion of the donor's entire interest in property or certain gifts of property interests exclusively for conservation purposes) to a qualified charity, and an interest in the same property is retained by the donor or is given to a donee other than a qualified charity, no charitable deduction is allowed for the interest given the charity unless:

(1) in the case of a remainder interest, such interest is in a trust which is a charitable remainder annuity trust, a charitable remainder unitrust, or a pooled income fund; or

(2) in the case of any other interest (such as an interest in the income from a short term trust), such interest is in the form of a guaranteed annuity or is a fixed percentage distributed yearly of the fair market value of the property (to be determined yearly).[13]

MARITAL DEDUCTION

In general, an unlimited gift tax marital deduction is available for transfers between spouses.[14] Technically, the amount of the gift tax marital deduction would be reduced by the amount of the transfer which qualifies for the annual exclusion [up to $10,000 (as indexed for 2000), see above]. Thus, if a husband transfers $50,000 to his wife and $10,000 of the transfer qualifies for the annual exclusion, the marital deduction would be limited to $40,000 ($50,000 transfer minus $10,000 annual exclusion).

If the spouse of the donor is not a United States citizen, the marital deduction is no longer available. However, in such a case, the annual exclusion (see above) for the transfer from the donor spouse to the

noncitizen spouse is increased from $10,000 to $103,000 (as indexed for 2000) (provided the transfer would otherwise qualify for the marital deduction if the donee spouse were a United States citizen).[15]

The marital deduction is generally not available for gifts of terminable interests. A "terminable interest" in property is an interest which will terminate or fail on the lapse of time or on the occurrence or failure to occur of some contingency. For example, an interest in trust income for life would ordinarily be a terminable interest.

With respect to transfers in trust, the following interests will not be treated as nondeductible terminable interests for purposes of the marital deduction:

- an income interest for life with a general power of appointment over trust corpus;
- a qualified terminable interest property (QTIP) trust;
- an estate trust; and
- a special rule charitable remainder trust.

A brief summary of these types of marital deduction trusts follows.

Life Estate with General Power of Appointment

It is provided by statute that if the donee spouse is given a right to trust income payable at least annually, the donee spouse has the power to appoint the trust corpus to herself or her estate (a general power of appointment), and no one has the power to appoint property to anyone other than the donee spouse, the marital deduction will be allowed. The life estate with power of appointment marital deduction can apply to a specific portion of a trust, but only if the specific portion is determined on a fractional or percentage basis. Property subject to the general power of appointment at the donee spouse's death will generally be includable in the donee spouse's estate for estate tax purposes. Property which the donee spouse transfers to others will generally be subject to gift tax.

Qualified Terminable Interest Property (QTIP) Trust

A donee spouse in a QTIP trust must be given a right to trust income payable at least annually. Also, no one can be given a power to appoint property to anyone other than the donee spouse. However, in a QTIP trust, the donee spouse need not be given any power of appointment. The QTIP marital deduction can apply to a specific portion of a trust, but only if the specific portion is determined on a fractional or percentage basis. An election is made as to the amount of the transfer as to which the QTIP marital deduction is to apply. QTIP property is subject to gift tax when given away by a donee spouse or included in the donee spouse's estate if retained until death.

Estate Trust

An estate trust is a trust in which the donee spouse is the only permissible income beneficiary and trust corpus is payable to the donee spouse's estate at death. Since the spouse holds all interests in the trust, an estate trust is not a terminable interest. In an estate trust, the donee spouse need not be given a right to trust income payable at least annually. The estate trust is includable in the donee spouse's estate for estate tax purposes.

Special Rule Charitable Trust

If the donee spouse is the only noncharitable beneficiary (other than possibly the donor) of a "qualified charitable remainder trust" created by the donor spouse, the donee spouse's interest is not considered a nondeductible terminable interest and the value of such interest will qualify for the marital deduction. A "qualified charitable remainder trust" means a charitable remainder annuity trust or a charitable remainder unitrust. Thus, the donee spouse would receive an annuity or unitrust interest for life or for a term of years not to exceed 20 years, and the charity would receive a remainder interest. A part of such a trust should qualify for the charitable deduction, and the balance of the trust for the marital deduction.

UNIFIED CREDIT

The unified credit is a dollar amount ($220,550 in 2000) which can be applied against the gift tax and the estate tax.[16] Actually, use of the

Figure 16.2

GIFT AND ESTATE TAX UNIFIED CREDIT

Year	Exclusion Equivalent	Unified Credit
1977 (1-1 to 6-30)	$30,000	$6,000
1977 (7-1 to 12-31)	120,667	30,000
1978	134,000	34,000
1979	147,333	38,000
1980	161,563	42,500
1981	175,625	47,000
1982	225,000	62,800
1983	275,000	79,300
1984	325,000	96,300
1985	400,000	121,800
1986	500,000	155,800
1987-1997	600,000	192,800
1998	625,000	202,050
1999	650,000	211,300
2000-2001	675,000	220,550
2002-2003	700,000	229,800
2004	850,000	287,300
2005	950,000	326,300
2006-	1,000,000	345,800

credit (to the extent available) is mandatory when the donor makes a taxable gift. Application of the unified credit for gift tax purposes reduces the amount of the credit which is available for gifts in future years, as well as the amount available for estate tax purposes. The unified credit is also reduced by 20 percent of the amount of the lifetime exemption a donor elected to use against gifts made after September 8, 1976 and before January 1, 1977.

The unified credit can protect up to $675,000 (in 2000) of transfers from the gift tax and estate tax. This $675,000 unified credit equivalent is equal to the amount of taxable transfers which would produce a gift or estate tax equal to $220,550. Note, however, that gift or estate tax is first calculated and then the unified credit is used to reduce the amount of tax, rather than by reducing the amount of taxable transfers by the unified credit equivalent and then calculating the tax (see "Computing the Gift Tax," above).

CHAPTER ENDNOTES

1. IRC Sec. 2516.
2. IRC Secs. 530(d)(3), 529(c)(2).
3. IRC Secs. 530(d)(3), 529(c)(5).
4. IRC Sec. 2502.
5. IRC Sec. 2501.
6. IRC Sec. 2516.
7. IRC Sec. 2513.
8. IRC Sec. 2503(b).
9. IRC Sec. 2523(i).
10. IRC Sec. 2503(e).
11. IRC Sec. 2522.
12. IRC Sec. 2522(a).
13. IRC Sec. 2522(c)(2).
14. IRC Sec. 2523.
15. IRC Sec. 2523(i).
16. IRC Sec. 2505.

Chapter 17

ESTATE TAX AND IRAS

The estate tax is a tax on a decedent's right to transfer property at death. Various deductions can often be used to reduce or eliminate the effect of the estate tax on IRA transfers. In particular, an unlimited marital deduction is generally available for transfers to a surviving spouse. Also, an unlimited charitable deduction is available for transfers to charity.

A number of credits can also be used to reduce or eliminate the effect of the estate tax on IRA transfers. In particular, each person has a unified credit which can be used to shelter gift tax during life or estate tax at death. In addition, a credit is allowed against federal estate tax for some or all of the death taxes paid to a state.

A traditional IRA, Roth IRA, SEP IRA, or SIMPLE IRA will generally be fully includable in the estate of the original IRA owner. A decedent's estate includes the value of an annuity or other payment receivable by reason of surviving the decedent where the decedent held certain interests in the property while alive. The amount includable is proportionate to the part of the purchase price contributed by the decedent. Any contribution by the employer of the decedent to the traditional IRA, Roth IRA, SEP IRA, or SIMPLE IRA is treated as made by the employee for this purpose.[1] Thus, the original IRA owner will generally have contributed 100 percent of the contributions to the traditional IRA, Roth IRA, SEP IRA, or SIMPLE IRA and the full value of the IRA will be includable in the original owner's estate.

If upon the original owner's death the traditional IRA, Roth IRA, SEP IRA, or SIMPLE IRA passes to the spouse of the original IRA owner, the transfer will generally qualify for the marital deduction. If the transfer to the surviving spouse qualifies for the marital deduction, any amount still left in the IRA at the surviving spouse's death will be includable in the surviving spouse's estate.

A traditional IRA, Roth IRA, SEP IRA, or SIMPLE IRA is not ordinarily includable in the estate of a beneficiary for estate tax purposes because the beneficiary did not contribute to the IRA. (However, note the comments in the preceding paragraph regarding spouses and the marital deduction.) However, if the beneficiary did contribute to the IRA, the IRA would be includable in the beneficiary's estate at the beneficiary's death in the same manner as described for an owner of the IRA above. Also, if the IRA were payable to the beneficiary's estate at the beneficiary's death, the IRA would be includable in the beneficiary's estate. Additionally, if the beneficiary is given a general power of appointment over the IRA, the IRA would be includable in the beneficiary's estate. And if the beneficiary gave away his interest in the IRA while retaining certain interests in the IRA, the IRA could be includable in the beneficiary's estate. See "Gross Estate," below.

If the beneficiary of an Education IRA dies, the Education IRA is includable in the beneficiary's federal gross estate. Also, if the donor of an Education IRA dies during a five-year period over which a gift has been spread (see Chapter 16) or a generation-skipping transfer has been spread (see Chapter 18), any gift or generation-skipping transfer allocated under the five-year rule to a year after the death of the donor is included in the donor's estate.[2]

COMPUTING THE ESTATE TAX

The estate tax is imposed on the transfer of the taxable estate. The taxable estate is the gross estate less allowable deductions, as discussed below. The unified tax rates are applied to the sum of the amount of the taxable estate and the amount of "adjusted taxable gifts." The unified tax rates are increased by a 5% surtax in the case of certain large estates, as discussed below.

Adjusted taxable gifts are taxable gifts (the balance after subtracting allowable exclusions and deductions) made by the decedent after 1976 other than gifts includable in the decedent's gross estate. The term generally includes one-half the amount of any gift the decedent or his spouse made to a third party that was consented to by the donor's spouse (i.e., a split gift — see Chapter 16). This produces a "tentative tax" from which is deducted the aggregate amount of gift tax which would have been payable by the decedent or his estate with respect to gifts made by the

decedent after 1976 if the tax rate schedule (see Figure 17.1) as in effect at the decedent's death had been applicable at the time of such gifts. The result of this computation is the estate tax, against which allowable credits, discussed below, are applied to determine the final tax payable.[3]

The benefit of the graduated tax rates is phased out for cumulative taxable gifts in excess of $10 million through imposition of a 5% surtax. Thus, the tentative gift tax is calculated at a 60% rate on cumulative taxable gifts from $10 million to $17,184,000.

For example, assume a decedent died in 2000 with a $2,000,000 gross estate. In 1990, the decedent made only one taxable gift of $100,000 (after utilizing the annual exclusion). The decedent paid no gift tax because $23,800 of the decedent's unified credit was applied to offset the $23,800 gift tax liability. The decedent's estate had funeral and administration expenses of $20,000. The decedent left $40,000 to charity and $1,000,000 to his wife. Figure 17.1 illustrates calculation of the estate tax and includes the gift and estate tax table.

GROSS ESTATE

Property may be includable in a decedent's estate where:

(1) the decedent owns the property at death (Section 2033);

(2) the decedent retains a life estate in the property (Section 2036);

(3) the decedent retains a reversionary interest in the property (Section 2037);

(4) the decedent retains or holds certain rights to change beneficial interests in the property (Section 2038);

(5) the decedent holds the right to certain annuity payments (Section 2039);

(6) life insurance on the decedent's life is payable to the decedent's estate or the decedent holds incidents of ownership in the life insurance (Section 2042);

Figure 17.1

FEDERAL ESTATE TAX

Year of Death		2000
Gross Estate		$2,000,000
Less: Funeral and Administration Expenses	$20,000	
Claims Against Estate and Certain Debt	$0	
Uncompensated Losses During Administration	$0	($20,000)
Adjusted Gross Estate		$1,980,000
Less: Charitable Deduction	$40,000	
Marital Deduction	$1,000,000	($1,040,000)
Taxable Estate		$940,000
Adjusted Taxable Gifts		$100,000
Computation Base		$1,040,000
Tentative Tax on Computation Base		$362,200
Gift Tax Payable on Post-1976 Gifts		($0)
Gross Regular Federal Estate Tax		$362,200
Less: Unified Credit	$220,550	
Credit for State Death Taxes	$35,440	
Credit for Certain Pre-1977 Gift Taxes	$0	
Credit for Foreign Death Taxes	$0	
Credit for Tax on Prior Transfers	$0	($255,990)
Federal Estate Tax		$106,210

GIFT AND ESTATE TAX TABLE*

(before credits)

Value of Estate		Tax on	Rate on
From	To	Col. 1	Excess
$0	$10,000	$0	18%
$10,000	$20,000	$1,800	20%
$20,000	$40,000	$3,800	22%
$40,000	$60,000	$8,200	24%
$60,000	$80,000	$13,000	26%
$80,000	$100,000	$18,200	28%
$100,000	$150,000	$23,800	30%
$150,000	$250,000	$38,800	32%
$250,000	$500,000	$70,800	34%
$500,000	$750,000	$155,800	37%
$750,000	$1,000,000	$248,300	39%
$1,000,000	$1,250,000	$345,800	41%
$1,250,000	$1,500,000	$448,300	43%
$1,500,000	$2,000,000	$555,800	45%
$2,000,000	$2,500,000	$780,800	49%
$2,500,000	$3,000,000	$1,025,800	53%
$3,000,000	$10,000,000	$1,290,800	55%
$10,000,000	$17,184,000	$5,140,800	60%
$17,184,000	.....	$9,451,200	55%

* Table includes 5% additional tax on large estates. IRC Sec. 2001(c).

(7) the decedent gives away interests described in (2), (3), (4), or (6) within three years of death (Section 2035);

(8) the decedent holds a general power of appointment (generally, the power to appoint property to the powerholder or the powerholder's estate, or the creditors of either — Section 2041); and

(9) a QTIP marital deduction election has been made, the QTIP is includable in the surviving spouse's estate (Section 2044).

Transfers under Sections 2036, 2037, 2038, or 2041 which are made for insufficient consideration are generally includable in a decedent's estate to the extent that the transfer exceeds the consideration furnished by other persons.[4] A qualified disclaimer of interests in property which would otherwise pass to a disclaimant can also be used to remove property which would otherwise be includable in the disclaimant's estate.[5]

DEDUCTIONS

Deductions against the gross estate are available for funeral and administration expenses, claims against the estate and debt on property includable in the estate, and uncompensated losses during administration arising from fires, storms, shipwrecks, or other casualties, or from theft.[6] A deduction may also be available for qualified family-owned business interests.[7] A substantial amount of estate planning revolves around the charitable deduction and the marital deduction discussed below.

Charitable Deduction

Bequests to qualified charitable organizations are not subject to the federal estate tax.[8] However, in order to insure that a charity actually receives the amount for which a charitable deduction is claimed, bequests of partial interests in property must meet certain requirements.

If any death taxes are, by the terms of the will, by the law of the jurisdiction under which the estate is administered, or by the law of the jurisdiction imposing the particular tax, payable in whole or in part out of the bequests otherwise deductible as charitable contributions, then the

amount deductible is the amount of such bequests reduced by the amount of such taxes.

A charitable deduction is allowed for the full amount of bequests made to or for the use of:

- the United States, any State, or any political subdivision thereof, or the District of Columbia, for exclusively public purposes;

- a corporation, or trust, or community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, or to foster national or international amateur sports competition (but only if no part of its activities involve the provision of athletic facilities or equipment), including the encouragement of art and the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual, which is not disqualified for tax exemption under Code section 501(c)(3) by attempting to influence legislation, and which does not participate or intervene in political campaigns;

- a fraternal society, order, or association, operating under the lodge system, but only if such gifts are to be used exclusively for religious, charitable, scientific, literary or educational purposes, including the prevention of cruelty to children or animals which is not disqualified for tax exemption under Code section 501(c)(3) by attempting to influence legislation, and which does not participate or intervene in political campaigns;

- organizations of war veterans incorporated by Act of Congress, or departments, chapters, or posts of such organizations, if no part of their earnings inures to the benefit of any private shareholder or individual.[9]

The IRS maintains lists of charities for which a taxpayer can take a charitable deduction.

Where a decedent makes a bequest of an interest in property (other than a remainder interest in a personal residence or farm or an undivided portion of the donor's entire interest in property or certain gifts of property interests exclusively for conservation purposes) to a qualified charity, and an interest in the same property is given to a donee other than a qualified charity (or retained by the donor in the case of a charitable trust created by a donor during the donor's lifetime and includable in the donor's estate at death), no charitable deduction is allowed for the interest given the charity unless:

(1) in the case of a remainder interest, such interest is in a trust which is a charitable remainder annuity trust, a charitable remainder unitrust, or a pooled income fund; or

(2) in the case of any other interest (such as an interest in the income from a short term trust), such interest is in the form of a guaranteed annuity or is a fixed percentage distributed yearly of the fair market value of the property (to be determined yearly).[10]

Marital Deduction

In general, an unlimited estate tax marital deduction is available for transfers to the surviving spouse of the decedent.[11] However, if the spouse of the decedent is not a United States citizen, the marital deduction is generally available only for transfers to a qualified domestic trust (QDOT), as discussed below.

The marital deduction is limited to the net value of qualifying property interests passing to the surviving spouse. Thus, the value of such interests must be reduced by federal and state death taxes payable out of those interests, by encumbrances on those interests, and by any obligation imposed by the decedent upon the surviving spouse with respect to the passing of such interests. The decedent spouse can generally specify to what extent the marital deduction portion bears the burden of payment of taxes or other obligations.

The marital deduction is generally not available for bequests of terminable interests. A "terminable interest" in property is an interest which will terminate or fail on the lapse of time or on the occurrence or

failure to occur of some contingency. For example, an interest in trust income for life would ordinarily be a terminable interest.

Decedents often use common disaster and time clauses to prevent property from falling into the estate of a beneficiary who dies at approximately the same time as the decedent. The decedent may have good reasons for not wanting his property to pass through two estates in quick succession:

(1) he may want to avoid duplicate probate costs, administration expenses and inheritance taxes;

(2) he may want his heirs, not his beneficiary's heirs, to have the property if his beneficiary does not survive a sufficient length of time to enjoy it.

The marital deduction will be allowed for a common disaster or a time clause (which would otherwise be terminable interests) if the only condition under which the surviving spouse's interest will terminate is the death of the surviving spouse within six months after decedent's death or as a result of a common disaster, and the condition does not occur.

With respect to transfers in trust, the following interests will not be treated as nondeductible terminable interests for purposes of the marital deduction:

- an income interest for life with a general power of appointment over trust corpus;
- a qualified terminable interest property (QTIP) trust;
- an estate trust;
- a special rule charitable remainder trust; and
- a qualified domestic trust (QDOT).

Life Estate with General Power of Appointment

It is provided by statute that if the surviving spouse is given a right to trust income payable at least annually, the surviving spouse has the

power to appoint the trust corpus to herself or her estate (a general power of appointment), and no one has the power to appoint property to anyone other than the surviving spouse, the marital deduction will be allowed. The life estate with power of appointment marital deduction can apply to a specific portion of a trust, but only if the specific portion is determined on a fractional or percentage basis. Property subject to the general power of appointment at the surviving spouse's death will generally be includable in the surviving spouse's estate for estate tax purposes. Property which the surviving spouse transfers to others will generally be subject to gift tax.

Qualified Terminable Interest Property (QTIP) Trust

A surviving spouse in a QTIP trust must be given a right to trust income payable at least annually. Also, no one can be given a power to appoint property to anyone other than the surviving spouse. However, in a QTIP trust, the surviving spouse need not be given any power of appointment. The QTIP marital deduction can apply to a specific portion of a trust, but only if the specific portion is determined on a fractional or percentage basis. An election is made as to the amount of the transfer as to which the QTIP marital deduction is to apply. QTIP property is subject to gift tax when given away by a surviving spouse or included in the surviving spouse's estate if retained until death.

Estate Trust

An estate trust is a trust in which the surviving spouse is the only permissible income beneficiary and trust corpus is payable to the surviving spouse's estate at death. Since the spouse holds all interests in the trust, an estate trust is not a terminable interest. In an estate trust, the surviving spouse need not be given a right to trust income payable at least annually. The estate trust is includable in the surviving spouse's estate for estate tax purposes.

Special Rule Charitable Trust

If the surviving spouse is the only noncharitable beneficiary of a "qualified charitable remainder trust" created by the decedent (or donor)

spouse, the surviving spouse's interest is not considered a nondeductible terminable interest and the value of such interest will qualify for the marital deduction. A "qualified charitable remainder trust" means a charitable remainder annuity trust or a charitable remainder unitrust. Thus, the surviving spouse would receive an annuity or unitrust interest for life or for a term of years not to exceed 20 years, and the charity would receive a remainder interest. A part of such a trust should qualify for the charitable deduction, and the balance of the trust for the marital deduction.

Qualified Domestic Trust (QDOT)

Where the surviving spouse is not a United States citizen, a qualified domestic trust (QDOT) must generally be used to qualify bequests to the surviving spouse for the estate tax marital deduction. (In order to qualify for the marital deduction, the transfer to the non-citizen must meet the QDOT requirements, as well as the marital deduction requirements of one of the other marital deduction trusts discussed above.)

At least one trustee of the QDOT must be a United States citizen or a domestic corporation and no distribution (other than a distribution of income) may be made from the trust unless that trustee has the right to withhold any additional gift or estate tax imposed on the trust. Additional gift tax is due on any distribution while the surviving spouse is still alive (other than a distribution to the surviving spouse of income or on account of hardship). Additional estate tax is due on any property remaining in the QDOT at the death of the surviving spouse (or at the time the trust ceases to qualify as a QDOT, if earlier). The additional gift or estate tax is calculated as if any property subject to the tax had been included in the taxable estate of the first spouse to die.[12]

CREDITS

The following credits are allowed against the federal estate tax:

- the unified credit;
- the state death tax credit;

- the credit for certain pre-1976 gift tax (Section 2012);
- the credit for tax on prior transfers (Section 2013); and
- the credit for foreign death taxes (Section 2014).

Unified Credit

The unified credit is a dollar amount ($220,550 in 2000) which can be applied against the gift tax and the estate tax.[13] Actually, use of the credit (to the extent available) is mandatory when the donor makes a taxable gift. Application of the unified credit for gift tax purposes reduces the amount of the credit which is available for gifts in future years, as well as the amount available for estate tax purposes. The unified credit is also reduced by 20 percent of the amount of the lifetime exemption a donor elected to use against gifts made after September 8, 1976 and before January 1, 1977.

Gift and Estate Tax Unified Credit

Year	Exclusion Equivalent	Unified Credit
1987-1997	600,000	192,800
1998	625,000	202,050
1999	650,000	211,300
2000-2001	675,000	220,550
2002-2003	700,000	229,800
2004	850,000	287,300
2005	950,000	326,300
2006-	1,000,000	345,800

The unified credit can protect up to $675,000 (in 2000) of transfers from the gift tax and estate tax. This $675,000 unified credit equivalent is equal to the amount of taxable transfers which would produce a gift or estate tax equal to $220,550. Note, however, that gift or estate tax is first calculated and then the unified credit is used to reduce the amount of tax, rather than by reducing the amount of taxable transfers by the unified credit equivalent and then calculating the tax (see "Computing the Estate Tax," above). Note, also, that when calculating estate tax the reduction for gift taxes payable on post-1976 gifts is equal to the gift taxes payable after reduction for the unified credit available at the time of the gift, as discussed above.

For example, assume a taxable estate of $940,000 and one lifetime taxable gift of $100,000. If the gift of $100,000 produced $23,800 of gift tax which was offset by $23,800 of unified credit, the estate tax reduction for gift taxes payable on that post-1976 gift is equal to $0. The unified credit of $220,550 is then subtracted from the $362,200 of estate tax otherwise payable to produce an estate tax of $141,650. See Figure 17.2.

A great deal of estate planning revolves around using the unified credit separately, or using the unified credit in a credit shelter bypass trust in conjunction with a marital deduction trust.

Figure 17.2

FEDERAL ESTATE TAX	
Year of Death	1999
Taxable Estate	$940,000
Adjusted Taxable Gifts	$100,000
Computation Base	$1,040,000
Tentative Tax on Computation Base	$362,200
Gift Tax Payable on Post-1976 Gifts	($0)
Gross Regular Federal Estate Tax	$362,200
Less: Unified Credit	$220,550
Federal Estate Tax (after unified credit)	$141,650

State Death Tax Credit

A credit is allowed against the federal estate tax for state death taxes — inheritance, legacy, estate and succession taxes — paid to any state of the United States or the District of Columbia with respect to property included in the gross estate.[14] The credit is limited to specified percentages of the "adjusted taxable estate" in excess of $40,000. The "adjusted taxable estate" is the taxable estate (see above) reduced by $60,000. If the decedent's adjusted taxable estate is $40,000 or less (i.e., a taxable estate of $100,000 or less), the credit for state death taxes is zero. Figure 17.3 sets out the amount of the state death tax credit.

Figure 17.3

STATE DEATH TAX CREDIT TABLE

Value of Adjusted Taxable Estate*		Credit on	Credit Rate on
From	To	Col. 1	Excess
$40,000	$90,000	$0	0.8%
$90,000	$140,000	$400	1.6%
$140,000	$240,000	$1,200	2.4%
$240,000	$440,000	$3,600	3.2%
$440,000	$640,000	$10,000	4.0%
$640,000	$840,000	$18,000	4.8%
$840,000	$1,040,000	$27,600	5.6%
$1,040,000	$1,540,000	$38,800	6.4%
$1,540,000	$2,040,000	$70,800	7.2%
$2,040,000	$2,540,000	$106,800	8.0%
$2,540,000	$3,040,000	$146,800	8.8%
$3,040,000	$3,540,000	$190,800	9.6%
$3,540,000	$4,040,000	$238,800	10.4%
$4,040,000	$5,040,000	$290,800	11.2%
$5,040,000	$6,040,000	$402,800	12.0%
$6,040,000	$7,040,000	$522,800	12.8%
$7,040,000	$8,040,000	$650,800	13.6%
$8,040,000	$9,040,000	$786,800	14.4%
$9,040,000	$10,040,000	$930,800	15.2%
$10,040,000	.....	$1,082,800	16.0%

* Adjusted taxable estate equals taxable estate reduced by $60,000

CHAPTER ENDNOTES

1. IRC Sec. 2039.
2. IRC Secs. 530(d)(3), 529(c)(4)(C).
3. IRC Sec. 2001.
4. IRC Sec. 2043.
5. IRC Sec. 2046.
6. IRC Secs. 2053, 2054.
7. IRC Sec. 2057.
8. IRC Sec. 2055.
9. IRC Sec. 2055(a).
10. IRC Sec. 255(e)(2).
11. IRC Sec. 2056.
12. IRC Sec. 2056A.
13. IRC Sec. 2010.
14. IRC Sec. 2011.

Chapter 18

GENERATION-SKIPPING TRANSFER TAX AND IRAS

The generation-skipping transfer (GST) tax applies to transfers to a skip person (generally, a person two or more generations younger than the transferor). The GST tax rate is 55 percent. Each transferor has a $1,000,000 ($1,030,000 as indexed for 2000) GST tax exemption.

When the original IRA owner dies, a transfer of the IRA to a skip person would be a generation-skipping transfer. A transfer to a skip person at death by a spouse who, received the IRA by marital deduction from the original IRA owner, would also generally be a generation-skipping transfer. However, if the original IRA owner made a reverse QTIP marital deduction election, the original IRA owner would be treated as the transferor with respect to the amount for which the reverse QTIP marital deduction was elected. In the case of a generation-skipping transfer, the transferor can allocate the GST tax exemption ($1,030,000 as indexed for 2000) to the transfer.

Where a spouse or a child is named as beneficiary, the generation-skipping transfer tax generally does not apply. However, who gets the IRA if the spouse or child dies or disclaims the IRA? If the IRA passes to a beneficiary (e.g., a grandchild) who is two generations younger than the IRA owner, the GST tax may apply.

For required minimum distribution purposes grandchildren generally make good IRA beneficiaries because of their long life expectancies and the ability to stretch out distributions. However, the GST tax must be considered whenever the beneficiary (e.g., a grandchild) is two or more generations younger than the transferor (e.g., a grandparent).

Whenever a trust is named as a beneficiary of an IRA, it is necessary to examine who the beneficiaries of the trust are. If any potential beneficiaries of the trust are two or more generations younger than the transferor

(generally the IRA owner who named the trust as beneficiary), the GST tax may apply.

A contribution to an Education IRA for a beneficiary other than the contributor is treated as a completed gift of other than a future interest for GST tax purposes. It therefore can qualify for the GST tax annual exclusion ($10,000 in 2000; $20,000 through gift-splitting with a spouse). It is not treated as a qualified transfer for education purposes under Code section 2503(e). If the aggregate amount of contributions to the beneficiary exceeds the annual exclusion for the year, the donor can elect to have such excess treated as made over the five-year period beginning with such year.[1]

Since the maximum contribution to an Education IRA is $500 and the annual exclusion is at least $10,000, the five-year spread would appear to be of no significance unless the donor makes substantial other generation-skipping transfers to the donee during the year and such transfers are taken into account before the contribution to the Education IRA.

In the case of an Education IRA, the federal GST tax applies to a permissible change in beneficiary or rollover to a new beneficiary only if the new beneficiary is a generation below the generation of the old beneficiary.[2]

GENERATION-SKIPPING TRANSFERS

In general, generation-skipping transfers are transfers to persons two or more generations younger than the transferor (skip persons). Generation-skipping transfers are either:

- direct skips;
- taxable distributions; or
- taxable terminations.[3]

In order to determine whether a generation-skipping transfer has occurred, it is necessary to know who is the transferor and it is often necessary to know who has an interest in property held in trust, as discussed below.

The following are not considered generation-skipping transfers:

- Any transfer which, if made during life by an individual, would be a nontaxable gift because of the "annual exclusion" or because it is a "qualified transfer" (amounts not subject to federal gift tax paid on behalf of an individual for his education or medical care). However, with respect to transfers after March 31, 1988, a nontaxable gift which is a direct skip to a trust for the benefit of an individual has an inclusion ratio of zero (i.e., nontaxable) only if (1) during the life of such individual no portion of the trust corpus or income may be distributed to or for the benefit of any other person, and (2) the trust would be included in such individual's estate if the trust did not terminate before such individual died.

- Any transfer to the extent (1) the property transferred was subject to a prior GST tax, (2) the transferee in the prior transfer was in the same generation as the current transferee or a younger generation, and (3) the transfers do not have the effect of avoiding the GST tax.[4]

Example. A transfers property to his great-grandchild, B, in a generation-skipping transfer. B transfers the property to his grandfather, C. (This is not a transfer to a skip person.) C transfers the property to his grandchild, D, who is in B's generation. The transfer from C to D is not a generation-skipping transfer.

In general, irrevocable trusts created prior to October 23, 1986, are grandfathered from the GST tax (except to the extent of corpus added to the trust after October 22, 1986 or income thereon). The GST tax applies generally to any generation-skipping transfer made after October 22, 1986. Also, any lifetime transfer after September 25, 1985, and on or before October 22, 1986, is treated as if made on October 23, 1986.

Transferor

Property which is subject to GST tax may also be subject to gift or estate tax at the same time it is subject to GST tax. A "transferor" for GST tax purposes, in the case of any property subject to the federal estate tax, is the decedent. In the case of any property subject to the federal gift tax,

the transferor for GST tax purposes is the donor.[5] Thus, to the extent that a lapse of a general power of appointment (including a right of withdrawal) is subject to gift or estate tax, the powerholder becomes the transferor with respect to such lapsed amount.[6]

If there is a generation-skipping transfer of any property and immediately after such transfer such property is held in trust, a different rule (the "multiple skip" rule) applies to subsequent transfers from such trust. In such case, the trust is treated as if the transferor (for purposes of subsequent transfers) were assigned to the first generation above the highest generation of any person having an "interest" (see below) in such trust immediately after such transfer.[7] If no person holds an interest immediately after the GST, then the transferor is assigned to the first generation above the highest generation of any person in existence at the time of the GST who may subsequently hold an interest in the trust.[8]

If an election is made to split gifts between spouses for gift tax purposes, each spouse may be treated as a transferor of one-half of the property transferred (assuming the general rule treating donors as transferors applies).[9] Such an election would generally allow a spouse who owns most of the property to take advantage of the other spouse's annual exclusion and $1 million exemption, as discussed below.

A reverse QTIP election may be made for property under the GST tax.[10] The effect of making the reverse QTIP election is to have the decedent or the donor (rather than the surviving or donee spouse) treated as the transferor for generation-skipping purposes. Such an election would generally be used to insure that a decedent's GST exemption, discussed below, was not wasted.

Example. In 2000, decedent with a $2,060,000 estate leaves $675,000 in a credit shelter trust and $1,385,000 to his surviving spouse in a QTIP trust, reducing his taxable estate to zero. (Assume each trust would be subject to GST tax to the extent that the $1,030,000 (as indexed for 2000) exemption is not allocated to such trust.) The executor allocates $675,000 of the decedent's $1,030,000 GST tax exemption to the credit shelter trust and makes a reverse QTIP election as to $355,000 of the QTIP property so that the decedent's full $1,030,000 exemption can be used. The surviving spouse's $1,030,000 exemption amount may then be used to protect the remaining

$1,030,000 of property, and the entire $2,060,000 has escaped GST tax (assuming separate QTIP trusts of $1,030,000 and $355,000 are created).

Assignment To Generations

An individual (and his spouse or former spouse) who is a lineal descendant of a grandparent of the transferor (or the transferor's spouse) is assigned to that generation which results from comparing the number of generations between the grandparent and such individual with the number of generations between the grandparent and the transferor (or the transferor's spouse). A relationship by legal adoption is treated as a relationship by blood, and a relationship by the half-blood is treated as a relationship of the whole blood. A person married to the transferor or a lineal descendant of a grandparent of the transferor (or the transferor's spouse) is assigned to the generation of the person to whom the person is married.[11]

However, with respect to terminations, distributions, and transfers occurring after 1997, where an individual's parent is dead at the time of a transfer subject to gift or estate tax upon which the individual's interest is established or derived, such individual will be treated as being one generation below the lower of (1) the transferor's generation or (2) the generation of the youngest living ancestor of the individual who is also a descendant of the parents of the transferor or the transferor's spouse. This predeceased parent rule applies to collateral relatives (e.g., nieces and nephews) only if there are no living lineal descendants of the transferor at the time of the transfer.[12]

An individual who cannot be assigned to a generation under the foregoing rules is assigned to a generation on the basis of his date of birth. An individual born not more than 12½ years after the date of birth of the transferor is assigned to the transferor's generation. An individual born more than 12½ years but not more than 37½ years after the date of birth of the transferor is assigned to the first generation younger than the transferor. There are similar rules for a new generation every 25 years.[13]

Interest In Property

In determining whether a generation-skipping transfer has occurred, it is often necessary to know who has an interest in the property. A person

has an "interest in property" held in trust if (at the time the determination is made) such person:

(1) has a present right to receive income or corpus from the trust (e.g., a life income interest);

(2) is a permissible current recipient of income or corpus from the trust (e.g., a beneficiary entitled to distribution of income or corpus, but only in the discretion of the trustee) and is not a charitable organization as determined for gift tax purposes; or

(3) is such a charitable organization and the trust is a charitable remainder annuity trust, a charitable remainder unitrust, or a pooled income fund).

In determining whether a person has an interest in property, the fact that income or corpus may be used to satisfy a support obligation is disregarded if such use is discretionary or made pursuant to the Uniform Gifts to Minors Act (or a similar state statute). An interest may be disregarded if it is used primarily to postpone or avoid the generation-skipping tax.[14]

Direct Skip

A direct skip is a transfer subject to federal gift or estate tax to a skip person.[15] Before January 1, 1990, a $2 million exemption was available for "direct skip" transfers from a transferor to a grandchild of the transferor.

Generally, some examples of direct skips include (among others):

- G transfers property to his grandchildren;
- G transfers property to a trust for his grandchildren;
- G transfers in trust property to his grandchild for life, remainder to grandchild's children;
- P is given a general power of appointment (exercisable during life or at death) in a trust and appoints the property

subject to the power (either in trust or outright) to a skip person; and

- at G's death, property included in G's estate passes in trust to G's grandchildren, or to G's grandchildren and great-grandchildren.

In the case of a direct skip, the taxable amount is the value of the property received by the transferee.[16] In the case of a direct skip from a trust, the tax is paid by the trustee. In the case of a direct skip (other than a direct skip from a trust), the tax is paid by the transferor. Unless the governing instrument of transfer otherwise directs, the GST tax is charged to the property constituting the transfer.[17]

Taxable Termination

A taxable termination occurs when an "interest in property" held in trust is terminated by an individual's death, lapse of time, release of a power, or otherwise, unless either:

(1) a non-skip person has an interest in the trust immediately after such termination; or

(2) at no time after the termination may a distribution be made from the trust to a skip person other than a distribution the probability of which occurring is so remote as to be negligible (i.e., less than a 5 percent actuarial probability).

If upon the termination of an interest in a trust by reason of the death of a lineal descendant of the transferor, a portion of the trust is distributed to skip persons (or to trusts for such persons), such partial termination is treated as taxable. If a transfer subject to estate or gift tax occurs at the time of the termination, the transfer is not a taxable termination (but it may be a direct skip, as discussed above).[18]

Example. G transfers property in trust to his wife for life, then to children for life, then to grandchildren for life, and finally to great-grandchildren. If separate shares are created for each child and each grandchild, generally, a taxable termination would occur with respect to each such share at each child's or grandchild's death. If the interest

of a generation does not terminate until the last person in such generation dies, generally, a taxable termination would occur at the death of the last child to die and at the death of the last grandchild to die.

In the case of a taxable termination, the taxable amount is the value of all property with respect to which the taxable termination has occurred, reduced by the expenses, similar to those allowed as a deduction under section 2053 of the Code in determining the taxable estate for estate tax purposes, with respect to which the taxable termination has occurred.[19] In the case of a taxable termination, the tax is paid by the trustee. Unless the governing instrument of transfer otherwise directs, the GST tax is charged to the property constituting the transfer.[20]

Taxable Distribution

A taxable distribution is any distribution from a trust to a skip person (other than a taxable termination or a direct skip).[21] When property is held in trust immediately following a generation-skipping transfer, the "multiple skip" rule (see "transferor," above) places the transferor one generation above the highest generation with an interest in the trust. Therefore, once there has been a direct skip or taxable termination to a generation, generally, such generation will no longer be a skip person and distributions to such generation will not be taxable distributions.

Example. G transfers property in trust to his wife for life, then to children for life, then to grandchildren for life, and finally to great-grandchildren. The trustee is given certain powers to sprinkle income or corpus. If separate shares are created for each child, generally, any distribution from the trust to a grandchild prior to the termination of the interest of the grandmother and the parent of such grandchild is treated as a taxable distribution. If the interest of the children's generation does not terminate until the last person in such generation dies, generally, any distribution from the trust to a grandchild prior to the termination of the interest of G's wife and of the last child to die is treated as a taxable distribution. Similarly, any distribution from the trust to a great-grandchild prior to the termination of the interest of the grandmother, the children, and the grandchildren is generally treated as a taxable distribution.

Example. G transfers property in trust to his grandchildren for life, and then to great-grandchildren. The trustee is given certain powers to sprinkle income or corpus. When G transferred the property to the trust there was a direct skip to the trust. Distributions to the grandchildren would not be taxable distributions because the trust would be treated as the transferor (see "multiple skip" rule, above) and assigned to the children's generation (first generation above grandchildren's) immediately after the direct skip. However, any distribution from the trust to a great-grandchild prior to the termination of the interest of the grandchildren would generally be treated as a taxable distribution. Also, when the grandchildren's interests end there would be a taxable termination.

In the case of a taxable distribution, the taxable amount is the value of the property received by the transferee reduced by any expense incurred by the transferee with respect to the GST tax imposed on the distribution. If any portion of the GST tax with respect to a taxable distribution is paid out of the trust, the taxable distribution is increased by such an amount.[22] In the case of a taxable distribution, the tax is paid by the transferee.[23]

CALCULATION OF GST TAX

Each transferor has a $1 million (as indexed) GST tax exemption, discussed below. Allocations of the $1 million GST exemption can be made to transferred property. In order to determine how much of a trust is exempt and how much is nonexempt when a taxable termination or a taxable distribution occurs for GST tax purposes, an inclusion ratio, discussed below, is determined for the trust based upon allocations of the $1 million GST exemption to the trust.

The inclusion ratio may change as additional transfers are made to the trust. An inclusion ratio is also used for direct skips. In general, a trust which is totally exempt has an inclusion ratio of zero and a trust which is totally nonexempt has an inclusion ratio of one. The inclusion ratio is multiplied by the 55 percent GST tax rate and then multiplied by the amount of the GST (see above).[24] The result is the GST tax imposed on the trust transfer.

If a GST transfer (other than a direct skip) occurs at the same time as and as a result of the death of an individual, a credit against the GST tax

imposed is allowed in an amount equal to the GST tax actually paid to any state with respect to any property included in the GST, but the amount cannot exceed five percent of the GST tax.[25]

GST Exemption

Every individual is allowed a GST exemption of $1 million ($1,030,000 as indexed for 2000) which may be allocated irrevocably by him (or his executor) to any property with respect to which he is the transferor.[26] In general, an individual or the individual's executor may allocate the GST exemption at any time from the date of the transfer until the time for filing the individual's federal estate tax return (including extensions actually granted), regardless of whether a return is required.[27]

The GST exemption is automatically allocated to lifetime direct skips unless otherwise elected on a timely filed federal gift tax return.[28] With regard to lifetime transfers other than a direct skip, an allocation is made on the federal gift tax return. An allocation can use a formula (e.g., the amount necessary to produce an inclusion ratio of zero). An allocation on a timely filed gift tax return is generally effective as of the date of the transfer. An allocation on an untimely filed gift tax return is generally effective as of the date the return is filed and is deemed to precede any taxable event occurring on such date. An allocation of the GST exemption is irrevocable after the due date. Except with respect to the special rules for charitable lead annuity trusts, discussed below, an allocation of GST exemption to a trust is void to the extent the allocation exceeds the amount necessary to obtain a zero inclusion ratio, discussed below, with respect to the trust.[29]

An executor can make an allocation of the transferor's unused GST exemption on the transferor's federal estate tax return. An allocation with respect to property included in the transferor's estate is effective as of the date of death. A late allocation of the GST with respect to a lifetime transfer can be made by the executor on the estate tax return and is effective as of the date the allocation is filed. A decedent's unused GST exemption is automatically and irrevocably allocated on the due date for the federal estate tax return to the extent not otherwise allocated by the executor. The automatic allocation is made to nonexempt property: first to direct skips occurring at death, and then to trusts with potential taxable distributions or taxable terminations.[30]

With respect to late allocations of the GST exemption to a trust, the transferor may elect (solely for purpose of determining the fair market value of trust assets) to treat the allocation as made on the first day of the month in which the allocation is made. This election is not effective with respect to a trust holding a life insurance policy, if the insured individual has died.[31]

Charitable Lead Annuity Trusts

Special rules apply to allocations of the GST exemption to charitable lead annuity trusts. With respect to property transferred after October 13, 1987, the GST tax exemption inclusion ratio for any charitable lead annuity trust is to be determined by dividing the amount of exemption allocated to the trust by the value of the property in the trust following the charitable term. For this purpose, the exemption allocated to the trust is increased by interest determined at the interest rate used in determining the amount of the estate or gift tax charitable deduction with respect to such a trust over the charitable term. With respect to a late allocation of the GST exemption, as discussed above, interest accrues only from the date of the late allocation. The amount of GST exemption allocated to the trust is not reduced even though it is determined at a later time that a lesser amount of GST exemption would have produced a zero inclusion ratio.[32]

Estate Tax Inclusion Period (ETIP)

In general, allocations of the GST tax exemption are postponed during the period in which property would be includable in the estate of the transferor or the spouse of the transferor for estate tax purposes. With respect to inter vivos transfers subject at some point in time to the GST tax, the allocation of any portion of the GST exemption to such a transfer is postponed until the earlier of:

(1) the expiration of the period (not to extend beyond the transferor's death) during which the property being transferred would be included in the transferor's estate (other than by reason of the gifts within three years of death rule of Code section 2035) if he died; or

(2) the GST.

For purposes of determining the inclusion ratio, discussed below, with respect to such exemption, the value of such property is:

(1) its estate tax value if it is included in the transferor's estate (other than by reason of the three year rule of Code section 2035); or

(2) its value determined at the end of the ETIP.

However, if the allocation of the exemption under the second valuation method is not made on a timely filed gift tax return for the year in which the ETIP ends, determination of value is postponed until such allocation is filed.[33]

Example. Grantor sets up an irrevocable trust under which income is retained for 10 years. Then, a life estate for the children is provided for, followed by remainder to the grandchildren. The valuation of property for purpose of the inclusion rule is delayed until the earlier of the expiration of the 10-year period or the transferor's death. If the grantor were to die during such time the property would be included in the grantor's estate under Code section 2036(a) as a retained life estate. However, if the grantor survived the 10-year period and failed to make an allocation of the exemption on a timely filed gift tax return, the determination of value is postponed until the earlier of the time an allocation is filed or death.

Except as provided in regulations, for purpose of the GST exemption allocation rules, any reference to an individual or a transferor is generally treated as including the spouse of such individual or transferor.[34] Thus, an ETIP includes the period during which, if death occurred, the property being transferred would be included in the estate (other than by reason of the gifts within three years of death rule of Code section 2035) of the transferor or the spouse of the transferor. However, the property is not considered as includable in the estate of the transferor or the spouse of the transferor if the possibility of inclusion is so remote as to be negligible (i.e., less than a five percent actuarial probability).

The property is not considered as includable in the estate of the spouse of the transferor by reason of a withdrawal power limited to the greater of

$5,000 or five percent of the trust corpus if the withdrawal power terminates no later than 60 days after the transfer to trust.

Apparently, the ETIP rules do not apply if a reverse QTIP election is made.

The ETIP terminates on the earlier of:

(1) the death of the transferor;

(2) the time at which no portion would be includable in the transferor's estate (other than by reason of Code section 2035) or, in the case of the spouse who consents to a split-gift, the time at which no portion would be includable in the other spouse's estate;

(3) the time of the GST (but only with respect to property involved in the GST); or

(4) in the case of an ETIP arising because of an interest or power held by the transferor's spouse, at the earlier of (a) the death of the spouse, or (b) the time at which no portion would be includable in the spouse's estate (other than by reason of Code section 2035).[35]

Example. Grantor sets up an irrevocable trust under which income is retained for the shorter of nine years or life, with the remainder to a grandchild. Grantor and spouse elect to split the gift. If the spouse dies during trust term, the spouse's executor can allocate GST exemption to the spouse's deemed one-half of the trust. However, the allocation is not effective until the earlier of the expiration of grantor's income interest or grantor's death.

Inclusion Ratio

In general, the inclusion ratio with respect to any property transferred in a generation-skipping transfer is the excess of 1 minus (a) the "applicable fraction" for the trust from which the transfer is made, or (b) in the case of a direct skip to a trust, the applicable fraction determined for the skip.[36]

The "applicable fraction" is a fraction (a) the *numerator* of which is the amount of the GST exemption allocated to the trust (or to the property transferred, if a direct skip), and (b) the *denominator* of which is the value of the property transferred reduced by (i) the sum of any federal estate or state death tax actually recovered from the trust attributable to such property, (ii) any federal gift tax or estate tax charitable deduction allowed with respect to such property, and (iii) with respect to a direct skip, the portion that is a nontaxable gift, as discussed below. The fraction should be rounded to the nearest one-thousandth, with 5 rounded up (i.e., .2345 is rounded to .235). If the denominator of the applicable fraction is zero, the inclusion ratio is zero.[37]

Example. In the year 1997, G transfers irrevocably in trust for his grandchildren $4 million and allocates all his $1 million GST exemption to the transfer. The applicable fraction is 1,000,000/4,000,000, or .250. The inclusion ratio is 1 minus .250, or .750. The maximum estate tax rate, 55%, is applied against the inclusion ratio, .750. The resulting percentage, 41.3%, is applied against the value of the property transferred, $4,000,000, to produce a GST tax of $1,652,000. The tax is paid by G, the transferor, because this is a direct skip (other than a direct skip from a trust).

Example. Assume the same facts as in preceding example, except that for federal gift tax purposes G's wife consented to a split gift of the $4 million. Thus, for GST tax purposes as well, the gift is considered split between the spouses. If they both elect to have their respective GST exemptions allocated to the transfer, for each of them the maximum estate tax rate of 55% will be applied against an inclusion ratio of .500 to produce a tax rate of 27.5% applied to a $2 million transfer, or a total GST tax of $1,100,000 on the $4 million transfer. The tax is paid ½ each by G and G's wife, the transferors, because each gift is a direct skip (other than a direct skip from a trust).

If there is more than one transfer in trust the applicable fraction must be recomputed at the time of each transfer. Thus, if property is transferred to a preexisting trust, the "recomputed applicable fraction" is determined as follows: The *numerator* of such fraction is the sum of (1) the amount of the GST exemption allocated to the property involved in such transfer and (2) the nontax portion of the trust immediately before the transfer. (The nontax portion of the trust is the value of the trust immediately before

the transfer multiplied by the applicable fraction in effect before such transfer.) The *denominator* of such fraction is the value of the trust immediately after the transfer reduced by (1) the sum of any federal estate or state death tax actually recovered from the trust attributable to such property, (2) any federal gift tax or estate tax charitable deduction allowed with respect to such property, and (3) with respect to a direct skip, the portion that is a nontaxable gift.[38]

Example. In the year 1993, G transfers irrevocably in trust for his children and grandchildren $4 million and allocates all his $1 million GST exemption to the transfer. The applicable fraction is 1,000,000/4,000,000, or .250. The inclusion ratio is 1 minus .250, or .750. The maximum estate tax rate, 55%, is applied against the inclusion ratio, .750. The resulting percentage, 41.3%, is to be applied against the value of any taxable termination, taxable distribution, or direct skip from the trust.

However, in 2000, when the trust property has grown to $6 million, G transfers an additional $3 million to the trust. An additional $30,000 of GST exemption is available to G in 2000 ($1,030,000 GST exemption as indexed for 2000 minus $1,000,000 exemption already used). The numerator of the recomputed fraction is the value of the nontax portion of the trust immediately before the transfer, or $1.5 million (value of the trust, $6 million, multiplied by the applicable fraction of .250), plus $30,000 additional exemption, or $1,530,000. The denominator of the recomputed fraction is $9 million (the sum of the transferred property, $3 million, and the value of all the property in the trust immediately before the transfer, $6 million). The applicable fraction is 1,530,000/9,000,000, or .170. The inclusion ratio is 1 minus .170, or .830. The maximum estate tax rate, 55%, is applied against the inclusion ratio, .830. The resulting percentage, 45.7%, is to be applied against the value of any taxable termination, taxable distribution, or direct skip from the trust.

Generally, planners strive for trusts (or portions of trust treated as separate trusts) with inclusion ratios of zero (totally GST tax exempt) and one (totally GST tax nonexempt) rather than for intermediate ratios. Then, a trustee may be able to make distributions from a trust with a zero inclusion ratio if distributions are to a skip person (thus avoiding GST tax),

while distributions from a trust with an inclusion ratio of one are made to non-skip persons (thus reducing the amount of property remaining which may later be subject to generation-skipping tax).

CHAPTER ENDNOTES

1. IRC Secs. 530(d)(3), 529(c)(2).
2. IRC Secs. 530(d)(3), 529(c)(5).
3. IRC Secs. 2611(a), 2613.
4. IRC Secs. 2611(b), 2642(c).
5. IRC Sec. 2652(a)(1).
6. Reg. §26.2652-1(a).
7. IRC Sec. 2653(a).
8. Reg. §26.2653-1.
9. IRC Sec. 2652(a)(2).
10. IRC Sec. 2652(a)(3).
11. IRC Secs. 2651(a), 2651(b), 2651(c).
12. IRC Sec. 2651(e).
13. IRC Sec. 2651(d).
14. IRC Sec. 2652(c).
15. IRC Sec. 2612(c).
16. IRC Sec. 2623.
17. IRC Secs. 2603(a)(3), 2603(b).
18. IRC Sec. 2612(a); Reg. §26.2612-1(b).
19. IRC Sec. 2622.
20. IRC Secs. 2603(a)(2), 2603(b).
21. IRC Sec. 2612(b).
22. IRC Sec. 2621.
23. IRC Secs. 2603(a)(1), 2603(b).
24. IRC Secs. 2602, 2642.
25. IRC Sec. 2604.
26. IRC Sec. 2631.
27. IRC Sec. 2632.
28. IRC Sec. 2632(b).
29. Reg. §26.2632-1(b).
30. IRC Sec. 2632(c); Reg. §26.2632-1(d).
31. IRC Sec. 2642(b)(2)(A); Reg. §26.2642-2(a)(2).
32. IRC Sec. 2642(e); Reg. §26.2642-3.
33. IRC Sec. 2642(f).
34. IRC Sec. 2642(f)(4).
35. Reg. §26.2632-1(c).
36. IRC Sec. 2642(a)(1).
37. IRC Sec. 2642(a)(2); Reg. §26.2642-1.
38. IRC Sec. 2642(d); Reg. §26.2642-4.

Appendix A

ANNUITY TABLES

Annuity Table V and Table VI are tables for life expectancy or expected return multiples. Table V and Table VI are used in this book primarily for calculating substantially equal periodic payments under the premature distributions penalty tax and for calculating required minimum distributions.

Table V is used for a single life. Table VI is used for joint and survivor two lives (i.e., second to die).

In general, a single life expectancy table can be used to show how long a person a certain age can generally be expected to live. For example, using Table V, a person age 70 can be expected to live another 16 years. A joint and survivor table can be used to project how long it will be until two persons are both dead. For example, using Table VI, it can be expected that a person age 70 and a person age 60 will both be dead in 26.2 years.

A single life expected return multiple can be used to show how much a person receiving a series of payments for life would generally receive over his lifetime. For example, using Table V, a person age 60 receiving $1,000 a year for life could expect to receive $16,000 over his lifetime ($1,000 x 16). Similarly, a joint and survivor expected return multiple table can be used to project how much two persons would receive while both persons are alive. For example, using Table VI, it can be expected that a person age 70 and a person age 60 receiving $1,000 a year until both persons are dead can be expected to receive $26,200 whole both are alive ($1,000 x 26.2).

There is an exception to the premature distribution penalty tax for substantially equal periodic payments (see Chapter 13). The required minimum distribution and amortization methods for calculating substantially equal periodic payments use Table V and Table VI.

In general, certain required minimum distributions must be made from an IRA or a 50% penalty tax applies (see Chapter 13). Required minimum distributions are calculated using Table V and Table VI. In addition, when making projections of future required minimum distributions, it may be helpful to use a person's life expectancy (Table V) to project when death may occur.

In determining whether to convert a traditional IRA, SEP IRA, or SIMPLE IRA to a Roth IRA (see Chapter 12), or whether to make deductible contributions to a traditional or SEP IRA or nondeductible contributions to a Roth IRA (see Chapter 9), it is useful to make projections of future contributions. It may be helpful to use a person's life expectancy (Table V) to project when death may occur.

Table V — Ordinary Life Annuities — One Life — Expected Return Multiples

Age	Multiple	Age	Multiple	Age	Multiple
5	76.6	42	40.6	79	10.0
6	75.6	43	39.6	80	9.5
7	74.7	44	38.7	81	8.9
8	73.7	45	37.7	82	8.4
9	72.7	46	36.8	83	7.9
10	71.7	47	35.9	84	7.4
11	70.7	48	34.9	85	6.9
12	69.7	49	34.0	86	6.5
13	68.8	50	33.1	87	6.1
14	67.8	51	32.2	88	5.7
15	66.8	52	31.3	89	5.3
16	65.8	53	30.4	90	5.0
17	64.8	54	29.5	91	4.7
18	63.9	55	28.6	92	4.4
19	62.9	56	27.7	93	4.1
20	61.9	57	26.8	94	3.9
21	60.9	58	25.9	95	3.7
22	59.9	59	25.0	96	3.4
23	59.0	60	24.2	97	3.2
24	58.0	61	23.3	98	3.0
25	57.0	62	22.5	99	2.8
26	56.0	63	21.6	100	2.7
27	55.1	64	20.8	101	2.5
28	54.1	65	20.0	102	2.3
29	53.1	66	19.2	103	2.1
30	52.2	67	18.4	104	1.9
31	51.2	68	17.6	105	1.8
32	50.2	69	16.8	106	1.6
33	49.3	70	16.0	107	1.4
34	48.3	71	15.3	108	1.3
35	47.3	72	14.6	109	1.1
36	46.4	73	13.9	110	1.0
37	45.4	74	13.2	111	.9
38	44.4	75	12.5	112	.8
39	43.5	76	11.9	113	.7
40	42.5	77	11.2	114	.6
41	41.5	78	10.6	115	.5

Table VI — Ordinary Joint Life and Last Survivor Annuities — Two Lives — Expected Return Multiples

AGES	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50
35	54.0	...	...	...	...	.										
36	53.5	53.0	...	...	...	.										
37	53.0	52.5	52.0	...	..	.										
38	52.6	52.0	51.5	51.0		.										
39	52.2	51.6	51.0	50.5	50.0											
40	51.8	51.2	50.6	50.0	49.5	49.0	.									
41	51.4	50.8	50.2	49.6	49.1	48.5	48.0									
42	51.1	50.4	49.8	49.2	48.6	48.1	47.5	47.0	.							
43	50.8	50.1	49.5	48.8	48.2	47.6	47.1	46.6	46.0	...	...	...				
44	50.5	49.8	49.1	48.5	47.8	47.2	46.7	46.1	45.6	45.1	...	...				
45	50.2	49.5	48.8	48.1	47.5	46.9	46.3	45.7	45.1	44.6	44.1	...				
46	50.0	49.2	48.5	47.8	47.2	46.5	45.9	45.3	44.7	44.1	43.6	43.1	...			
47	49.7	49.0	48.3	47.5	46.8	46.2	45.5	44.9	44.3	43.7	43.2	42.6	42.1	...	..	
48	49.5	48.8	48.0	47.3	46.6	45.9	45.2	44.5	43.9	43.3	42.7	42.2	41.7	41.2	...	
49	49.3	48.5	47.8	47.0	46.3	45.6	44.9	44.2	43.6	42.9	42.3	41.8	41.2	40.7	40.2	...
50	49.2	48.4	47.6	46.8	46.0	45.3	44.6	43.9	43.2	42.6	42.0	41.4	40.8	40.2	39.7	39.2
51	49.0	48.2	47.4	46.6	45.8	45.1	44.3	43.6	42.9	42.2	41.6	41.0	40.4	39.8	39.3	38.7
52	48.8	48.0	47.2	46.4	45.6	44.8	44.1	43.3	42.6	41.9	41.3	40.6	40.0	39.4	38.8	38.3
53	48.7	47.9	47.0	46.2	45.4	44.6	43.9	43.1	42.4	41.7	41.0	40.3	39.7	39.0	38.4	37.9
54	48.6	47.7	46.9	46.0	45.2	44.4	43.6	42.9	42.1	41.4	40.7	40.0	39.3	38.7	38.1	37.5
55	48.5	47.6	46.7	45.9	45.1	44.2	43.4	42.7	41.9	41.2	40.4	39.7	39.0	38.4	37.7	37.1
56	48.3	47.5	46.6	45.8	44.9	44.1	43.3	42.5	41.7	40.9	40.2	39.5	38.7	38.1	37.4	36.8
57	48.3	47.4	46.5	45.6	44.8	43.9	43.1	42.3	41.5	40.7	40.0	39.2	38.5	37.8	37.1	36.4
58	48.2	47.3	46.4	45.5	44.7	43.8	43.0	42.1	41.3	40.5	39.7	39.0	38.2	37.5	36.8	36.1
59	48.1	47.2	46.3	45.4	44.5	43.7	42.8	42.0	41.2	40.4	39.6	38.8	38.0	37.3	36.6	35.9
60	48.0	47.1	46.2	45.3	44.4	43.6	42.7	41.9	41.0	40.2	39.4	38.6	37.8	37.1	36.3	35.6
61	47.9	47.0	46.1	45.2	44.3	43.5	42.6	41.7	40.9	40.0	39.2	38.4	37.6	36.9	36.1	35.4
62	47.9	47.0	46.0	45.1	44.2	43.4	42.5	41.6	40.8	39.9	39.1	38.3	37.5	36.7	35.9	35.1
63	47.8	46.9	46.0	45.1	44.2	43.3	42.4	41.5	40.6	39.8	38.9	38.1	37.3	36.5	35.7	34.9
64	47.8	46.8	45.9	45.0	44.1	43.2	42.3	41.4	40.5	39.7	38.8	38.0	37.2	36.3	35.5	34.8
65	47.7	46.8	45.9	44.9	44.0	43.1	42.2	41.3	40.4	39.6	38.7	37.9	37.0	36.2	35.4	34.6
66	47.7	46.7	45.8	44.9	44.0	43.1	42.2	41.3	40.4	39.5	38.6	37.8	36.9	36.1	35.2	34.4
67	47.6	46.7	45.8	44.8	43.9	43.0	42.1	41.2	40.3	39.4	38.5	37.7	36.8	36.0	35.1	34.3
68	47.6	46.7	45.7	44.8	43.9	42.9	42.0	41.1	40.2	39.3	38.4	37.6	36.7	35.8	35.0	34.2
69	47.6	46.6	45.7	44.8	43.8	42.9	42.0	41.1	40.2	39.3	38.4	37.5	36.6	35.7	34.9	34.1
70	47.5	46.6	45.7	44.7	43.8	42.9	41.9	41.0	40.1	39.2	38.3	37.4	36.5	35.7	34.8	34.0
71	47.5	46.6	45.6	44.7	43.8	42.8	41.9	41.0	40.1	39.1	38.2	37.3	36.5	35.6	34.7	33.9
72	47.5	46.6	45.6	44.7	43.7	42.8	41.9	40.9	40.0	39.1	38.2	37.3	36.4	35.5	34.6	33.8
73	47.5	46.5	45.6	44.7	43.7	42.8	41.8	40.9	40.0	39.0	38.1	37.2	36.3	35.4	34.6	33.7
74	47.5	46.5	45.6	44.7	43.7	42.7	41.8	40.9	39.9	39.0	38.1	37.2	36.3	35.4	34.5	33.6
75	47.4	46.5	45.5	44.7	43.6	42.7	41.8	40.8	39.9	39.0	38.1	37.1	36.2	35.3	34.5	33.6
76	47.4	46.5	45.5	44.7	43.6	42.7	41.7	40.8	39.9	38.9	38.0	37.1	36.2	35.3	34.4	33.5
77	47.4	46.5	45.5	44.7	43.6	42.7	41.7	40.8	39.8	38.9	38.0	37.1	36.2	35.3	34.4	33.5
78	47.4	46.4	45.5	44.5	43.6	42.6	41.7	40.7	39.8	38.9	38.0	37.0	36.1	35.2	34.3	33.4
79	47.4	46.4	45.5	44.5	43.6	42.6	41.7	40.7	39.8	38.9	37.9	37.0	36.1	35.2	34.3	33.4
80	47.4	46.4	45.5	44.5	43.6	42.6	41.7	40.7	39.8	38.8	37.9	37.0	36.1	35.2	34.2	33.4
81	47.4	46.4	45.5	44.5	43.5	42.6	41.6	40.7	39.8	38.8	37.9	37.0	36.0	35.1	34.2	33.3
82	47.4	46.4	45.4	44.5	43.5	42.6	41.6	40.7	39.7	38.8	37.9	36.9	36.0	35.1	34.2	33.3
83	47.4	46.4	45.4	44.5	43.5	42.6	41.6	40.7	39.7	38.8	37.9	36.9	36.0	35.1	34.2	33.3
84	47.4	46.4	45.4	44.5	43.5	42.6	41.6	40.7	39.7	38.8	37.8	36.9	36.0	35.0	34.1	33.2
85	47.4	46.4	45.4	44.5	43.5	42.6	41.6	40.7	39.7	38.8	37.8	36.9	36.0	35.0	34.1	33.2
86	47.3	46.4	45.4	44.5	43.5	42.5	41.6	40.6	39.7	38.8	37.8	36.9	36.0	35.0	34.1	33.2
87	47.3	46.4	45.4	44.5	43.5	42.5	41.6	40.6	39.7	38.7	37.8	36.9	35.9	35.0	34.1	33.2
88	47.3	46.4	45.4	44.5	43.5	42.5	41.6	40.6	39.7	38.7	37.8	36.9	35.9	35.0	34.1	33.2
89	47.3	46.4	45.4	44.4	43.5	42.5	41.6	40.6	39.7	38.7	37.8	36.9	35.9	35.0	34.1	33.2
90	47.3	46.4	45.4	44.4	43.5	42.5	41.6	40.6	39.7	38.7	37.8	36.9	35.9	35.0	34.1	33.2

Table VI — Ordinary Joint Life and Last Survivor Annuities — Two Lives — Expected Return Multiples

AGES	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66
51	38.2															
52	37.8	37.3														
53	37.3	36.8	36.3													
54	36.9	36.4	35.8	35.3												
55	36.5	35.9	35.4	34.9	34.4	...	...	...								
56	36.1	35.6	35.0	34.4	33.9	33.4	...	...	...							
57	35.8	35.2	34.6	34.0	33.5	33.0	32.5									
58	35.5	34.8	34.2	33.6	33.1	32.5	32.0	31.5								
59	35.2	34.5	33.9	33.3	32.7	32.1	31.6	31.1	30.6							
60	34.9	34.2	33.6	32.9	32.3	31.7	31.2	30.6	30.1	29.7						
61	34.6	33.9	33.3	32.6	32.0	31.4	30.8	30.2	29.7	29.2	28.7	..				
62	34.4	33.7	33.0	32.3	31.7	31.0	30.4	29.9	29.3	28.8	28.3	27.8				..
63	34.2	33.5	32.7	32.0	31.4	30.7	30.1	29.5	28.9	28.4	27.8	27.3	26.9			
64	34.0	33.2	32.5	31.8	31.1	30.4	29.8	29.2	28.6	28.0	27.4	26.9	26.4	25.9	..	
65	33.8	33.0	32.3	31.6	30.9	30.2	29.5	28.9	28.2	27.6	27.1	26.5	26.0	25.5	25.0	
66	33.6	32.9	32.1	31.4	30.6	29.9	29.2	28.6	27.9	27.3	26.7	26.1	25.6	25.1	24.6	24.1
67	33.5	32.7	31.9	31.2	30.4	29.7	29.0	28.3	27.6	27.0	26.4	25.8	25.2	24.7	24.2	23.7
68	33.4	32.5	31.8	31.0	30.2	29.5	28.8	28.1	27.4	26.7	26.1	25.5	24.9	24.3	23.8	23.3
69	33.2	32.4	31.6	30.8	30.1	29.3	28.6	27.8	27.1	26.5	25.8	25.2	24.6	24.0	23.4	22.9
70	33.1	32.3	31.5	30.7	29.9	29.1	28.4	27.6	26.9	26.2	25.6	24.9	24.3	23.7	23.1	22.5
71	33.0	32.2	31.4	30.5	29.7	29.0	28.2	27.5	26.7	26.0	25.3	24.7	24.0	23.4	22.8	22.2
72	32.9	32.1	31.2	30.4	29.6	28.8	28.1	27.3	26.5	25.8	25.1	24.4	23.8	23.1	22.5	21.9
73	32.8	32.0	31.1	30.3	29.5	28.7	27.9	27.1	26.4	25.6	24.9	24.2	23.5	22.9	22.2	21.6
74	32.8	31.9	31.1	30.2	29.4	28.6	27.8	27.0	26.2	25.5	24.7	24.0	23.3	22.7	22.0	21.4
75	32.7	31.8	31.0	30.1	29.3	28.5	27.7	26.9	26.1	25.3	24.6	23.8	23.1	22.4	21.8	21.1
76	32.6	31.8	30.9	30.1	29.2	28.4	27.6	26.8	26.0	25.2	24.4	23.7	23.0	22.3	21.6	20.9
77	32.6	31.7	30.8	30.0	29.1	28.3	27.5	26.7	25.9	25.1	24.3	23.6	22.8	22.1	21.4	20.7
78	32.5	31.7	30.8	29.9	29.1	28.2	27.4	26.6	25.8	25.0	24.2	23.4	22.7	21.9	21.2	20.5
79	32.5	31.6	30.7	29.9	29.0	28.2	27.3	26.5	25.7	24.9	24.1	23.3	22.6	21.8	21.1	20.4
80	32.5	31.6	30.7	29.8	29.0	28.1	27.3	26.4	25.6	24.8	24.0	23.2	22.4	21.7	21.0	20.2
81	32.4	31.5	30.7	29.8	28.9	28.1	27.2	26.4	25.5	24.7	23.9	23.1	22.3	21.6	20.8	20.1
82	32.4	31.5	30.6	29.7	28.9	28.0	27.2	26.3	25.5	24.6	23.8	23.0	22.3	21.5	20.7	20.0
83	32.4	31.5	30.6	29.7	28.8	28.0	27.1	26.3	25.4	24.6	23.8	23.0	22.2	21.4	20.6	19.9
84	32.3	31.4	30.6	29.7	28.8	27.9	27.1	26.2	25.4	24.5	23.7	22.9	22.1	21.3	20.5	19.8
85	32.3	31.4	30.5	29.6	28.8	27.9	27.0	26.2	25.3	24.5	23.7	22.8	22.0	21.3	20.5	19.7
86	32.3	31.4	30.5	29.6	28.7	27.9	27.0	26.1	25.3	24.5	23.6	22.8	22.0	21.2	20.4	19.6
87	32.3	31.4	30.5	29.6	28.7	27.8	27.0	26.1	25.3	24.4	23.6	22.8	21.9	21.1	20.4	19.6
88	32.3	31.4	30.5	29.6	28.7	27.8	27.0	26.1	25.2	24.4	23.5	22.7	21.9	21.1	20.3	19.5
89	32.3	31.4	30.5	29.6	28.7	27.8	26.9	26.1	25.2	24.4	23.5	22.7	21.9	21.1	20.3	19.5
90	32.3	31.3	30.5	29.5	28.7	27.8	26.9	26.1	25.2	24.3	23.5	22.7	21.8	21.0	20.2	19.4

Table VI — Ordinary Joint Life and Last Survivor Annuities — Two Lives — Expected Return Multiples

AGES	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82
67	23.2															
68	22.8	22.3														
69	22.4	21.9	21.5													
70	22.0	21.5	21.1	20.6	.											
71	21.7	21.2	20.7	20.2	19.8	...										
72	21.3	20.8	20.3	19.8	19.4	18.9	...									
73	21.0	20.5	20.0	19.4	19.0	18.5	18.1									
74	20.8	20.2	19.6	19.1	18.6	18.2	17.7	17.3	..							
75	20.5	19.9	19.3	18.8	18.3	17.8	17.3	16.9	16.5	...						
76	20.3	19.7	19.1	18.5	18.0	17.5	17.0	16.5	16.1	15.7						
77	20.1	19.4	18.8	18.3	17.7	17.2	16.7	16.2	15.8	15.4	15.0	.				
78	19.9	19.2	18.6	18.0	17.5	16.9	16.4	15.9	15.4	15.0	14.6	14.2				
79	19.7	19.0	18.4	17.8	17.2	16.7	16.1	15.6	15.1	14.7	14.3	13.9	13.5	..		
80	19.5	18.9	18.2	17.6	17.0	16.4	15.9	15.4	14.9	14.4	14.0	13.5	13.2	12.8	...	
81	19.4	18.7	18.1	17.4	16.8	16.2	15.7	15.1	14.6	14.1	13.7	13.2	12.8	12.5	12.1	
82	19.3	18.6	17.9	17.3	16.6	16.0	15.5	14.9	14.4	13.9	13.4	13.0	12.5	12.2	11.8	11.5
83	19.2	18.5	17.8	17.1	16.5	15.9	15.3	14.7	14.2	13.7	13.2	12.7	12.3	11.9	11.5	11.1
84	19.1	18.4	17.7	17.0	16.3	15.7	15.1	14.5	14.0	13.5	13.0	12.5	12.0	11.6	11.2	10.9
85	19.0	18.3	17.6	16.9	16.2	15.6	15.0	14.4	13.8	13.3	12.8	12.3	11.8	11.4	11.0	10.6
86	18.9	18.2	17.5	16.8	16.1	15.5	14.8	14.2	13.7	13.1	12.6	12.1	11.6	11.2	10.8	10.4
87	18.8	18.1	17.4	16.7	16.0	15.4	14.7	14.1	13.5	13.0	12.4	11.9	11.4	11.0	10.6	10.1
88	18.8	18.0	17.3	16.6	15.9	15.3	14.6	14.0	13.4	12.8	12.3	11.8	11.3	10.8	10.4	10.0
89	18.7	18.0	17.2	16.5	15.8	15.2	14.5	13.9	13.3	12.7	12.2	11.6	11.1	10.7	10.2	9.8
90	18.7	17.9	17.2	16.5	15.8	15.1	14.5	13.8	13.2	12.6	12.1	11.5	11.0	10.5	10.1	9.6

Table VI — Ordinary Joint Life and Last Survivor Annuities — Two Lives — Expected Return Multiples

AGES	83	84	85	86	87	88	89	90
83	10.8	.						
84	10.5	10.2						
85	10.2	9.9	9.6					
86	10.0	9.7	9.3	9.1				
87	9.8	9.4	9.1	8.8	8.5	.		
88	9.6	9.2	8.9	8.6	8.3	8.0	..	
89	9.4	9.0	8.7	8.3	8.1	7.8	7.5	
90	9.2	8.8	8.5	8.2	7.9	7.6	7.3	7.1

Appendix B

FUTURE VALUE TABLES

A future value table is used to show what a single sum or a series of regular contributions or payments (an annuity) will grow to, or be worth, at some point in the future. Future value tables are used in this book primarily in making projections with regard to determining whether to convert a traditional IRA, SEP IRA, or SIMPLE IRA to a Roth IRA, or whether to make deductible contributions to a traditional or SEP IRA or nondeductible contributions to a Roth IRA.

A future value of a single sum table is used to show what a single sum will grow to at some point in the future if it grows at a given interest rate. For example, at 10% interest, $100,000 can be expected to grow to $259,370 in 10 years ($100,000 x 2.5937).

A future value of an annuity table is used to show what a fund will grow to at some point in the future if regular contributions are made to the fund and the fund grows at a given interest rate. For example, at 10% interest, contributions of $1,000 per year can be expected to grow to $15,937.40 in 10 years ($1,000 x 15.9374).

For periodic contributions other than annually at the end of the year, a factor from either Annuity Adjustment Factor Table A or Annuity Adjustment Factor Table B (see Appendix C) could be multiplied by the future value of an annuity factor to produce a factor that is adjusted for frequency of payments.

In determining whether to convert a traditional IRA, SEP IRA, or SIMPLE IRA to a Roth IRA (see Chapter 12), or whether to make deductible contributions to a traditional or SEP IRA or nondeductible contributions to a Roth IRA (see Chapter 9), it is useful to make projections of future contributions. Future value tables are used in those projections.

In addition, future value tables can be used for the sole purpose of showing the amount that may be accumulated in an IRA. It may be useful to show what amount may accumulate in an IRA and be available in the future for some purpose such as retirement. It may also be useful to show what amount may accumulate in an IRA and be subject to estate tax when a person dies.

FUTURE VALUE SINGLE SUM FACTORS

INTEREST RATE

YEAR	6.0%	6.2%	6.4%	6.6%	6.8%	7.0%	7.2%
1	1.0600	1.0620	1.0640	1.0660	1.0680	1.0700	1.0720
2	1.1236	1.1278	1.1321	1.1364	1.1406	1.1449	1.1492
3	1.1910	1.1978	1.2046	1.2114	1.2182	1.2250	1.2319
4	1.2625	1.2720	1.2816	1.2913	1.3010	1.3108	1.3206
5	1.3382	1.3509	1.3637	1.3765	1.3895	1.4026	1.4157
6	1.4185	1.4347	1.4509	1.4674	1.4840	1.5007	1.5176
7	1.5036	1.5236	1.5438	1.5642	1.5849	1.6058	1.6269
8	1.5938	1.6181	1.6426	1.6675	1.6927	1.7182	1.7440
9	1.6895	1.7184	1.7477	1.7775	1.8078	1.8385	1.8696
10	1.7908	1.8249	1.8596	1.8948	1.9307	1.9672	2.0042
11	1.8983	1.9381	1.9786	2.0199	2.0620	2.1049	2.1485
12	2.0122	2.0582	2.1052	2.1532	2.2022	2.2522	2.3032
13	2.1329	2.1858	2.2400	2.2953	2.3519	2.4098	2.4691
14	2.2609	2.3214	2.3833	2.4468	2.5119	2.5785	2.6468
15	2.3966	2.4653	2.5359	2.6083	2.6827	2.7590	2.8374
16	2.5404	2.6181	2.6981	2.7805	2.8651	2.9522	3.0417
17	2.6928	2.7805	2.8708	2.9640	3.0599	3.1588	3.2607
18	2.8543	2.9528	3.0546	3.1596	3.2680	3.3799	3.4955
19	3.0256	3.1359	3.2501	3.3681	3.4902	3.6165	3.7471
20	3.2071	3.3304	3.4581	3.5904	3.7276	3.8697	4.0169
21	3.3996	3.5368	3.6794	3.8274	3.9810	4.1406	4.3062
22	3.6035	3.7561	3.9149	4.0800	4.2517	4.4304	4.6162
23	3.8197	3.9890	4.1654	4.3493	4.5409	4.7405	4.9486
24	4.0489	4.2363	4.4320	4.6363	4.8496	5.0724	5.3049
25	4.2919	4.4990	4.7156	4.9423	5.1794	5.4274	5.6868
26	4.5494	4.7779	5.0174	5.2685	5.5316	5.8074	6.0963
27	4.8223	5.0741	5.3386	5.6162	5.9078	6.2139	6.5352
28	5.1117	5.3887	5.6802	5.9869	6.3095	6.6488	7.0057
29	5.4184	5.7228	6.0438	6.3820	6.7385	7.1143	7.5101
30	5.7435	6.0776	6.4306	6.8032	7.1968	7.6123	8.0509
31	6.0881	6.4545	6.8421	7.2523	7.6861	8.1451	8.6305
32	6.4534	6.8546	7.2800	7.7309	8.2088	8.7153	9.2519
33	6.8406	7.2796	7.7459	8.2411	8.7670	9.3253	9.9181
34	7.2510	7.7310	8.2417	8.7851	9.3632	9.9781	10.6322
35	7.6861	8.2103	8.7691	9.3649	9.9999	10.6766	11.3977
36	8.1473	8.7193	9.3304	9.9830	10.6798	11.4239	12.2183
37	8.6361	9.2599	9.9275	10.6418	11.4061	12.2236	13.0981
38	9.1543	9.8340	10.5629	11.3442	12.1817	13.0793	14.0411
39	9.7035	10.4437	11.2389	12.0929	13.0100	13.9948	15.0521
40	10.2857	11.0913	11.9582	12.8910	13.8947	14.9744	16.1358
41	10.9029	11.7789	12.7235	13.7419	14.8396	16.0227	17.2976
42	11.5570	12.5092	13.5378	14.6488	15.8487	17.1442	18.5430
43	12.2505	13.2848	14.4042	15.6156	16.9264	18.3443	19.8781
44	12.9855	14.1084	15.3261	16.6463	18.0774	19.6284	21.3094
45	13.7646	14.9832	16.3070	17.7449	19.3066	21.0024	22.8436
46	14.5905	15.9121	17.3506	18.9161	20.6195	22.4726	24.4884
47	15.4659	16.8987	18.4611	20.1645	22.0216	24.0457	26.2515
48	16.3939	17.9464	19.6426	21.4954	23.5191	25.7289	28.1416
49	17.3775	19.0591	20.8997	22.9141	25.1184	27.5299	30.1678
50	18.4202	20.2407	22.2373	24.4264	26.8264	29.4570	32.3399

FUTURE VALUE SINGLE SUM FACTORS

INTEREST RATE

YEAR	7.4%	7.6%	7.8%	8.0%	8.2%	8.4%	8.6%
1	1.0740	1.0760	1.0780	1.0800	1.0820	1.0840	1.0860
2	1.1535	1.1578	1.1621	1.1664	1.1707	1.1751	1.1794
3	1.2388	1.2458	1.2527	1.2597	1.2667	1.2738	1.2808
4	1.3305	1.3404	1.3504	1.3605	1.3706	1.3808	1.3910
5	1.4290	1.4423	1.4558	1.4693	1.4830	1.4967	1.5106
6	1.5347	1.5519	1.5693	1.5869	1.6046	1.6225	1.6405
7	1.6483	1.6699	1.6917	1.7138	1.7362	1.7588	1.7816
8	1.7702	1.7968	1.8237	1.8509	1.8785	1.9065	1.9348
9	1.9012	1.9333	1.9659	1.9990	2.0326	2.0666	2.1012
10	2.0419	2.0803	2.1193	2.1589	2.1992	2.2402	2.2819
11	2.1930	2.2384	2.2846	2.3316	2.3796	2.4284	2.4782
12	2.3553	2.4085	2.4628	2.5182	2.5747	2.6324	2.6913
13	2.5296	2.5915	2.6549	2.7196	2.7858	2.8535	2.9227
14	2.7168	2.7885	2.8620	2.9372	3.0143	3.0932	3.1741
15	2.9179	3.0004	3.0852	3.1722	3.2614	3.3530	3.4470
16	3.1338	3.2285	3.3258	3.4259	3.5289	3.6347	3.7435
17	3.3657	3.4738	3.5852	3.7000	3.8182	3.9400	4.0654
18	3.6147	3.7378	3.8649	3.9960	4.1313	4.2710	4.4151
19	3.8822	4.0219	4.1664	4.3157	4.4701	4.6297	4.7948
20	4.1695	4.3276	4.4913	4.6610	4.8367	5.0186	5.2071
21	4.4781	4.6565	4.8417	5.0338	5.2333	5.4402	5.6549
22	4.8094	5.0104	5.2193	5.4365	5.6624	5.8972	6.1412
23	5.1653	5.3912	5.6264	5.8715	6.1267	6.3925	6.6694
24	5.5476	5.8009	6.0653	6.3412	6.6291	6.9295	7.2430
25	5.9581	6.2418	6.5384	6.8485	7.1727	7.5116	7.8658
26	6.3990	6.7161	7.0484	7.3964	7.7608	8.1426	8.5423
27	6.8725	7.2266	7.5981	7.9881	8.3972	8.8265	9.2769
28	7.3811	7.7758	8.1908	8.6271	9.0858	9.5680	10.0748
29	7.9273	8.3667	8.8297	9.3173	9.8308	10.3717	10.9412
30	8.5139	9.0026	9.5184	10.0627	10.6370	11.2429	11.8821
31	9.1439	9.6868	10.2608	10.8677	11.5092	12.1873	12.9040
32	9.8206	10.4230	11.0611	11.7371	12.4529	13.2110	14.0137
33	10.5473	11.2151	11.9239	12.6760	13.4741	14.3208	15.2189
34	11.3278	12.0675	12.8540	13.6901	14.5790	15.5237	16.5278
35	12.1661	12.9846	13.8566	14.7853	15.7744	16.8277	17.9491
36	13.0663	13.9715	14.9374	15.9682	17.0679	18.2412	19.4928
37	14.0333	15.0333	16.1025	17.2456	18.4675	19.7735	21.1691
38	15.0717	16.1758	17.3585	18.6253	19.9819	21.4345	22.9897
39	16.1870	17.4052	18.7125	20.1153	21.6204	23.2350	24.9668
40	17.3849	18.7280	20.1721	21.7245	23.3932	25.1867	27.1139
41	18.6713	20.1513	21.7455	23.4625	25.3115	27.3024	29.4457
42	20.0530	21.6828	23.4416	25.3395	27.3870	29.5958	31.9781
43	21.5369	23.3307	25.2701	27.3666	29.6328	32.0818	34.7282
44	23.1307	25.1038	27.2411	29.5560	32.0626	34.7767	37.7148
45	24.8424	27.0117	29.3660	31.9204	34.6918	37.6979	40.9583
46	26.6807	29.0646	31.6565	34.4741	37.5365	40.8645	44.4807
47	28.6551	31.2735	34.1257	37.2320	40.6145	44.2972	48.3060
48	30.7755	33.6503	36.7875	40.2106	43.9449	48.0181	52.4604
49	33.0529	36.2077	39.6569	43.4274	47.5484	52.0517	56.9719
50	35.4988	38.9595	42.7502	46.9016	51.4473	56.4240	61.8715

FUTURE VALUE SINGLE SUM FACTORS

INTEREST RATE

YEAR	8.8%	9.0%	9.2%	9.4%	9.6%	9.8%	10.0%
1	1.0880	1.0900	1.0920	1.0940	1.0960	1.0980	1.1000
2	1.1837	1.1881	1.1925	1.1968	1.2012	1.2056	1.2100
3	1.2879	1.2950	1.3022	1.3093	1.3165	1.3238	1.3310
4	1.4012	1.4116	1.4220	1.4324	1.4429	1.4535	1.4641
5	1.5246	1.5386	1.5528	1.5671	1.5814	1.5959	1.6105
6	1.6587	1.6771	1.6956	1.7144	1.7333	1.7523	1.7716
7	1.8047	1.8280	1.8516	1.8755	1.8997	1.9240	1.9487
8	1.9635	1.9926	2.0220	2.0518	2.0820	2.1126	2.1436
9	2.1363	2.1719	2.2080	2.2447	2.2819	2.3196	2.3579
10	2.3243	2.3674	2.4112	2.4557	2.5010	2.5470	2.5937
11	2.5288	2.5804	2.6330	2.6865	2.7410	2.7966	2.8531
12	2.7514	2.8127	2.8752	2.9391	3.0042	3.0706	3.1384
13	2.9935	3.0658	3.1397	3.2153	3.2926	3.3716	3.4523
14	3.2569	3.3417	3.4286	3.5176	3.6087	3.7020	3.7975
15	3.5435	3.6425	3.7440	3.8482	3.9551	4.0648	4.1772
16	3.8553	3.9703	4.0885	4.2100	4.3348	4.4631	4.5950
17	4.1946	4.3276	4.4646	4.6057	4.7509	4.9005	5.0545
18	4.5637	4.7171	4.8754	5.0386	5.2070	5.3807	5.5599
19	4.9653	5.1417	5.3239	5.5123	5.7069	5.9081	6.1159
20	5.4023	5.6044	5.8137	6.0304	6.2548	6.4870	6.7275
21	5.8777	6.1088	6.3486	6.5973	6.8552	7.1228	7.4002
22	6.3949	6.6586	6.9326	7.2174	7.5133	7.8208	8.1403
23	6.9577	7.2579	7.5704	7.8958	8.2346	8.5872	8.9543
24	7.5700	7.9111	8.2669	8.6380	9.0251	9.4288	9.8497
25	8.2361	8.6231	9.0275	9.4500	9.8915	10.3528	10.8347
26	8.9609	9.3992	9.8580	10.3383	10.8411	11.3674	11.9182
27	9.7495	10.2451	10.7649	11.3101	11.8819	12.4814	13.1100
28	10.6074	11.1671	11.7553	12.3733	13.0225	13.7046	14.4210
29	11.5409	12.1722	12.8368	13.5364	14.2727	15.0476	15.8631
30	12.5564	13.2677	14.0178	14.8088	15.6429	16.5223	17.4494
31	13.6614	14.4618	15.3074	16.2008	17.1446	18.1415	19.1943
32	14.8636	15.7633	16.7157	17.7237	18.7905	19.9193	21.1138
33	16.1716	17.1820	18.2535	19.3897	20.5944	21.8714	23.2251
34	17.5947	18.7284	19.9329	21.2124	22.5714	24.0148	25.5477
35	19.1431	20.4140	21.7667	23.2063	24.7383	26.3683	28.1024
36	20.8276	22.2512	23.7692	25.3877	27.1131	28.9524	30.9127
37	22.6605	24.2538	25.9560	27.7741	29.7160	31.7897	34.0039
38	24.6546	26.4367	28.3439	30.3849	32.5687	34.9051	37.4043
39	26.8242	28.8160	30.9516	33.2411	35.6953	38.3258	41.1447
40	29.1847	31.4094	33.7991	36.3658	39.1221	42.0817	45.2592
41	31.7530	34.2363	36.9086	39.7841	42.8778	46.2057	49.7851
42	34.5473	37.3175	40.3042	43.5239	46.9941	50.7339	54.7637
43	37.5874	40.6761	44.0122	47.6151	51.5055	55.7058	60.2400
44	40.8951	44.3370	48.0613	52.0909	56.4500	61.1650	66.2640
45	44.4939	48.3273	52.4830	56.9875	61.8692	67.1591	72.8904
46	48.4093	52.6767	57.3114	62.3443	67.8087	73.7407	80.1795
47	52.6694	57.4176	62.5841	68.2046	74.3183	80.9673	88.1974
48	57.3043	62.5852	68.3418	74.6159	81.4529	88.9021	97.0171
49	62.3470	68.2179	74.6293	81.6298	89.2723	97.6145	106.7189
50	67.8336	74.3575	81.4952	89.3030	97.8425	107.1807	117.3907

FUTURE VALUE SINGLE SUM FACTORS

INTEREST RATE

YEAR	10.2%	10.4%	10.6%	10.8%	11.0%	11.2%	11.4%
1	1.1020	1.1040	1.1060	1.1080	1.1100	1.1120	1.1140
2	1.2144	1.2188	1.2232	1.2277	1.2321	1.2365	1.2410
3	1.3383	1.3456	1.3529	1.3603	1.3676	1.3750	1.3825
4	1.4748	1.4855	1.4963	1.5072	1.5181	1.5290	1.5401
5	1.6252	1.6400	1.6549	1.6699	1.6851	1.7003	1.7156
6	1.7910	1.8106	1.8303	1.8503	1.8704	1.8907	1.9112
7	1.9737	1.9989	2.0244	2.0501	2.0762	2.1025	2.1291
8	2.1750	2.2067	2.2389	2.2715	2.3045	2.3380	2.3718
9	2.3968	2.4362	2.4763	2.5169	2.5580	2.5998	2.6422
10	2.6413	2.6896	2.7387	2.7887	2.8394	2.8910	2.9434
11	2.9107	2.9693	3.0290	3.0898	3.1518	3.2148	3.2790
12	3.2076	3.2782	3.3501	3.4236	3.4985	3.5748	3.6528
13	3.5348	3.6191	3.7052	3.7933	3.8833	3.9752	4.0692
14	3.8953	3.9955	4.0980	4.2030	4.3104	4.4205	4.5331
15	4.2926	4.4110	4.5324	4.6569	4.7846	4.9155	5.0498
16	4.7305	4.8697	5.0128	5.1598	5.3109	5.4661	5.6255
17	5.2130	5.3762	5.5442	5.7171	5.8951	6.0783	6.2668
18	5.7447	5.9353	6.1319	6.3345	6.5436	6.7591	6.9813
19	6.3307	6.5526	6.7818	7.0187	7.2633	7.5161	7.7771
20	6.9764	7.2340	7.5007	7.7767	8.0623	8.3579	8.6637
21	7.6880	7.9864	8.2958	8.6166	8.9492	9.2940	9.6514
22	8.4722	8.8170	9.1751	9.5472	9.9336	10.3349	10.7516
23	9.3363	9.7339	10.1477	10.5783	11.0263	11.4924	11.9773
24	10.2886	10.7463	11.2234	11.7207	12.2392	12.7795	13.3427
25	11.3381	11.8639	12.4130	12.9866	13.5855	14.2108	14.8638
26	12.4946	13.0977	13.7288	14.3891	15.0799	15.8024	16.5583
27	13.7690	14.4599	15.1841	15.9431	16.7386	17.5723	18.4459
28	15.1735	15.9637	16.7936	17.6650	18.5799	19.5404	20.5487
29	16.7212	17.6239	18.5737	19.5728	20.6237	21.7289	22.8913
30	18.4267	19.4568	20.5425	21.6867	22.8923	24.1626	25.5009
31	20.3062	21.4803	22.7200	24.0288	25.4104	26.8688	28.4080
32	22.3775	23.7143	25.1283	26.6239	28.2056	29.8781	31.6465
33	24.6600	26.1806	27.7920	29.4993	31.3082	33.2244	35.2542
34	27.1753	28.9034	30.7379	32.6852	34.7521	36.9456	39.2732
35	29.9472	31.9093	33.9961	36.2152	38.5748	41.0835	43.7503
36	33.0018	35.2279	37.5997	40.1265	42.8181	45.6848	48.7379
37	36.3680	38.8916	41.5853	44.4602	47.5280	50.8015	54.2940
38	40.0775	42.9363	45.9933	49.2618	52.7561	56.4913	60.4835
39	44.1654	47.4017	50.8686	54.5821	58.5593	62.8183	67.3786
40	48.6703	52.3315	56.2607	60.4770	65.0008	69.8540	75.0598
41	53.6346	57.7739	62.2243	67.0085	72.1509	77.6776	83.6166
42	59.1054	63.7824	68.8201	74.2454	80.0875	86.3775	93.1489
43	65.1341	70.4158	76.1150	82.2639	88.8971	96.0518	103.7679
44	71.7778	77.7390	84.1832	91.1484	98.6758	106.8096	115.5974
45	79.0991	85.8239	93.1066	100.9925	109.5302	118.7723	128.7755
46	87.1672	94.7496	102.9759	111.8997	121.5785	132.0748	143.4559
47	96.0583	104.6035	113.8914	123.9848	134.9521	146.8671	159.8099
48	105.8562	115.4823	125.9639	137.3752	149.7969	163.3163	178.0282
49	116.6536	127.4925	139.3160	152.2117	166.2745	181.6077	198.3234
50	128.5523	140.7517	154.0835	168.6506	184.5647	201.9477	220.9322

FUTURE VALUE SINGLE SUM FACTORS

INTEREST RATE

YEAR	11.6%	11.8%	12.0%	12.2%	12.4%	12.6%	12.8%
1	1.1160	1.1180	1.1200	1.1220	1.1240	1.1260	1.1280
2	1.2455	1.2499	1.2544	1.2589	1.2634	1.2679	1.2724
3	1.3899	1.3974	1.4049	1.4125	1.4200	1.4276	1.4352
4	1.5512	1.5623	1.5735	1.5848	1.5961	1.6075	1.6190
5	1.7311	1.7467	1.7623	1.7781	1.7940	1.8101	1.8262
6	1.9319	1.9528	1.9738	1.9951	2.0165	2.0381	2.0599
7	2.1560	2.1832	2.2107	2.2385	2.2665	2.2949	2.3236
8	2.4061	2.4408	2.4760	2.5116	2.5476	2.5841	2.6210
9	2.6852	2.7288	2.7731	2.8180	2.8635	2.9097	2.9565
10	2.9967	3.0508	3.1058	3.1618	3.2186	3.2763	3.3350
11	3.3443	3.4108	3.4785	3.5475	3.6177	3.6891	3.7618
12	3.7322	3.8133	3.8960	3.9803	4.0663	4.1539	4.2434
13	4.1652	4.2633	4.3635	4.4659	4.5705	4.6773	4.7865
14	4.6483	4.7663	4.8871	5.0107	5.1372	5.2667	5.3992
15	5.1876	5.3288	5.4736	5.6220	5.7742	5.9303	6.0903
16	5.7893	5.9576	6.1304	6.3079	6.4902	6.6775	6.8698
17	6.4609	6.6606	6.8660	7.0775	7.2950	7.5189	7.7492
18	7.2103	7.4465	7.6900	7.9409	8.1996	8.4662	8.7411
19	8.0467	8.3252	8.6128	8.9097	9.2164	9.5330	9.8599
20	8.9802	9.3076	9.6463	9.9967	10.3592	10.7342	11.1220
21	10.0219	10.4059	10.8038	11.2163	11.6437	12.0867	12.5456
22	11.1844	11.6337	12.1003	12.5847	13.0876	13.6096	14.1514
23	12.4818	13.0065	13.5523	14.1200	14.7104	15.3244	15.9628
24	13.9297	14.5413	15.1786	15.8427	16.5345	17.2552	18.0060
25	15.5455	16.2572	17.0001	17.7755	18.5848	19.4294	20.3108
26	17.3488	18.1755	19.0401	19.9441	20.8893	21.8775	22.9106
27	19.3612	20.3202	21.3249	22.3773	23.4796	24.6341	25.8432
28	21.6072	22.7180	23.8839	25.1073	26.3910	27.7380	29.1511
29	24.1136	25.3987	26.7499	28.1704	29.6635	31.2330	32.8824
30	26.9108	28.3958	29.9599	31.6072	33.3418	35.1683	37.0914
31	30.0324	31.7465	33.5551	35.4632	37.4762	39.5995	41.8391
32	33.5162	35.4926	37.5817	39.7898	42.1232	44.5891	47.1945
33	37.4040	39.6807	42.0915	44.6441	47.3465	50.2073	53.2354
34	41.7429	44.3630	47.1425	50.0907	53.2175	56.5334	60.0495
35	46.5851	49.5979	52.7996	56.2018	59.8165	63.6566	67.7358
36	51.9890	55.4504	59.1356	63.0584	67.2337	71.6773	76.4060
37	58.0197	61.9936	66.2318	70.7515	75.5707	80.7087	86.1860
38	64.7500	69.3088	74.1797	79.3832	84.9415	90.8780	97.2178
39	72.2609	77.4873	83.0812	89.06790	95.4742	102.3286	109.6616
40	80.6432	86.6308	93.0510	99.9342	107.3130	115.2220	123.6983
41	89.9978	96.8532	104.2171	112.1262	120.6198	129.7400	139.5317
42	100.4376	108.2819	116.7231	125.8056	135.5767	146.0872	157.3918
43	112.0883	121.0591	130.7299	141.1539	152.3882	164.4942	177.5379
44	125.0906	135.3441	146.4175	158.3746	171.2843	185.2205	200.2628
45	139.6011	151.3147	163.9876	177.6963	192.5235	208.5582	225.8964
46	155.7948	169.1699	183.6661	199.3753	216.3965	234.8366	254.8111
47	173.8670	189.1319	205.7060	223.6991	243.2296	264.4260	287.4270
48	194.0356	211.4495	230.3907	250.9903	273.3901	297.7436	324.2176
49	216.5437	236.4005	258.0376	281.6112	307.2905	335.2593	365.7175
50	241.6628	264.2958	289.0022	315.9677	345.3945	377.5020	412.5293

FUTURE VALUE SINGLE SUM FACTORS

INTEREST RATE

YEAR	13%	14%	15%	16%	17%	18%	19%
1	1.1300	1.1400	1.1500	1.1600	1.1700	1.1800	1.1900
2	1.2769	1.2996	1.3225	1.3456	1.3689	1.3924	1.4161
3	1.4429	1.4815	1.5209	1.5609	1.6016	1.6430	1.6852
4	1.6305	1.6890	1.7490	1.8106	1.8739	1.9388	2.0053
5	1.8424	1.9254	2.0114	2.1003	2.1924	2.2878	2.3864
6	2.0820	2.1950	2.3131	2.4364	2.5652	2.6996	2.8398
7	2.3526	2.5023	2.6600	2.8262	3.0012	3.1855	3.3793
8	2.6584	2.8526	3.0590	3.2784	3.5115	3.7589	4.0214
9	3.0040	3.2519	3.5179	3.8030	4.1084	4.4355	4.7854
10	3.3946	3.7072	4.0456	4.4114	4.8068	5.2338	5.6947
11	3.8359	4.2262	4.6524	5.1173	5.6240	6.1759	6.7767
12	4.3345	4.8179	5.3503	5.9360	6.5801	7.2876	8.0642
13	4.8980	5.4924	6.1528	6.8858	7.6987	8.5994	9.5965
14	5.5348	6.2613	7.0757	7.9875	9.0075	10.1472	11.4198
15	6.2543	7.1379	8.1371	9.2655	10.5387	11.9738	13.5895
16	7.0673	8.1372	9.3576	10.7480	12.3303	14.1290	16.1715
17	7.9861	9.2765	10.7613	12.4677	14.4265	16.6723	19.2441
18	9.0243	10.5752	12.3755	14.4625	16.8790	19.6733	22.9005
19	10.1974	12.0557	14.2318	16.7765	19.7484	23.2144	27.2516
20	11.5231	13.7435	16.3665	19.4608	23.1056	27.3930	32.4294
21	13.0211	15.6676	18.8215	22.5745	27.0336	32.3238	38.5910
22	14.7138	17.8610	21.6447	26.1864	31.6293	38.1421	45.9233
23	16.6266	20.3616	24.8915	30.3762	37.0062	45.0077	54.6488
24	18.7881	23.2122	28.6252	35.2364	43.2973	53.1090	65.0320
25	21.2305	26.4619	32.9190	40.8743	50.6578	62.6687	77.3881
26	23.9905	30.1666	37.8568	47.4141	59.2697	73.9490	92.0919
27	27.1093	34.3899	43.5353	55.0004	69.3455	87.2598	109.5893
28	30.6335	39.2045	50.0656	63.8005	81.1343	102.9666	130.4113
29	34.6158	44.6931	57.5755	74.0085	94.9271	121.5006	155.1894
30	39.1159	50.9502	66.2118	85.8499	111.0647	143.3707	184.6754
31	44.2010	58.0832	76.1435	99.5859	129.9457	169.1775	219.7638
32	49.9471	66.2148	87.5651	115.5196	152.0365	199.6294	261.5189
33	56.4402	75.4849	100.6998	134.0028	177.8827	235.5627	311.2075
34	63.7774	86.0528	115.8048	155.4432	208.1227	277.9640	370.3369
35	72.0685	98.1002	133.1755	180.3141	243.5036	327.9975	440.7010
36	81.4374	111.8342	153.1519	209.1644	284.8992	387.0371	524.4342
37	92.0243	127.4910	176.1247	242.6307	333.3321	456.7037	624.0767
38	103.9874	145.3397	202.5434	281.4516	389.9985	538.9104	742.6512
39	117.5058	165.6873	232.9249	326.4839	456.2983	635.9143	883.7550
40	132.7815	188.8835	267.8636	378.7213	533.8690	750.3789	1051.6685
41	150.0431	215.3272	308.0431	439.3167	624.6268	885.4471	1251.4855
42	169.5487	245.4730	354.2496	509.6074	730.8133	1044.8276	1489.2678
43	191.5901	279.8392	407.3871	591.1446	855.0516	1232.8966	1772.2287
44	216.4968	319.0167	468.4951	685.7277	1000.4104	1454.8180	2108.9522
45	244.6414	363.6791	538.7694	795.4442	1170.4802	1716.6853	2509.6532
46	276.4447	414.5942	619.5848	922.7153	1369.4618	2025.6887	2986.4874
47	312.3825	472.6373	712.5225	1070.3497	1602.2703	2390.3127	3553.9201
48	352.9923	538.8066	819.4009	1241.6057	1874.6563	2820.5691	4229.1650
49	398.8813	614.2395	942.3111	1440.2626	2193.3479	3328.2716	5032.7064
50	450.7358	700.2330	1083.6577	1670.7046	2566.2171	3927.3605	5988.9208

FUTURE VALUE ANNUITY FACTORS

INTEREST RATE

YEAR	6.0%	6.2%	6.4%	6.6%	6.8%	7.0%	7.2%
1	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
2	2.0600	2.0620	2.0640	2.0660	2.0680	2.0700	2.0720
3	3.1836	3.1898	3.1961	3.2024	3.2086	3.2149	3.2212
4	4.3746	4.3876	4.4006	4.4137	4.4268	4.4399	4.4531
5	5.6371	5.6596	5.6823	5.7050	5.7278	5.7507	5.7737
6	6.9753	7.0105	7.0460	7.0815	7.1173	7.1533	7.1894
7	8.3938	8.4452	8.4969	8.5489	8.6013	8.6540	8.7071
8	9.8975	9.9688	10.0407	10.1132	10.1862	10.2598	10.3340
9	11.4913	11.5869	11.6833	11.7806	11.8789	11.9780	12.0780
10	13.1808	13.3053	13.4310	13.5581	13.6866	13.8164	13.9477
11	14.9716	15.1302	15.2906	15.4530	15.6173	15.7836	15.9519
12	16.8699	17.0682	17.2692	17.4729	17.6793	17.8884	18.1004
13	18.8821	19.1265	19.3744	19.6261	19.8815	20.1406	20.4037
14	21.0151	21.3123	21.6144	21.9214	22.2334	22.5505	22.8727
15	23.2760	23.6337	23.9977	24.3682	24.7453	25.1290	25.5196
16	25.6725	26.0990	26.5336	26.9765	27.4280	27.8881	28.3570
17	28.2129	28.7171	29.2317	29.7570	30.2931	30.8402	31.3987
18	30.9057	31.4976	32.1026	32.7209	33.3530	33.9990	34.6594
19	33.7600	34.4504	35.1571	35.8805	36.6210	37.3790	38.1548
20	36.7856	37.5863	38.4072	39.2486	40.1112	40.9955	41.9020
21	39.9927	40.9167	41.8652	42.8390	43.8388	44.8652	45.9189
22	43.3923	44.4535	45.5446	46.6664	47.8198	49.0057	50.2251
23	46.9958	48.2097	49.4595	50.7464	52.0716	53.4361	54.8413
24	50.8156	52.1987	53.6249	55.0957	56.6124	58.1767	59.7899
25	54.8645	56.4350	58.0569	59.7320	61.4621	63.2490	65.0947
26	59.1564	60.9339	62.7725	64.6743	66.6415	68.6765	70.7816
27	63.7058	65.7118	67.7900	69.9428	72.1731	74.4838	76.8778
28	68.5281	70.7860	73.1285	75.5590	78.0809	80.6977	83.4130
29	73.6398	76.1747	78.8087	81.5459	84.3904	87.3465	90.4188
30	79.0582	81.8975	84.8525	87.9279	91.1289	94.4608	97.9289
31	84.8017	87.9752	91.2831	94.7312	98.3257	102.0730	105.9798
32	90.8898	94.4296	98.1252	101.9835	106.0119	110.2181	114.6103
33	97.3432	101.2843	105.4052	109.7144	114.2207	118.9334	123.8623
34	104.1838	108.5639	113.1511	117.9555	122.9877	128.2587	133.7804
35	111.4348	116.2949	121.3928	126.7406	132.3508	138.2368	144.4125
36	119.1209	124.5052	130.1619	136.1054	142.3507	148.9134	155.8102
37	127.2681	133.2245	139.4923	146.0884	153.0305	160.3373	168.0286
38	135.9042	142.4844	149.4198	156.7302	164.4366	172.5610	181.1266
39	145.0585	152.3184	159.9827	168.0744	176.6183	185.6402	195.1677
40	154.7620	162.7622	171.2216	180.1673	189.6283	199.6350	210.2198
41	165.0477	173.8534	183.1797	193.0584	203.5230	214.6095	226.3556
42	175.9505	185.6323	195.9032	206.8002	218.3626	230.6321	243.6532
43	187.5076	198.1415	209.4410	221.4490	234.2113	247.7764	262.1963
44	199.7580	211.4263	223.8453	237.0647	251.1376	266.1207	282.0744
45	212.7435	225.5347	239.1714	253.7110	269.2150	285.7492	303.3837
46	226.5081	240.5179	255.4783	271.4559	288.5216	306.7516	326.2274
47	241.0986	256.4300	272.8289	290.3720	309.1411	329.2242	350.7157
48	256.5645	273.3287	291.2900	310.5365	331.1627	353.2699	376.9673
49	272.9584	291.2750	310.9326	332.0319	354.6817	378.9988	405.1089
50	290.3359	310.3341	331.8322	354.9460	379.8001	406.5287	435.2767

FUTURE VALUE ANNUITY FACTORS

INTEREST RATE

YEAR	7.4%	7.6%	7.8%	8.0%	8.2%	8.4%	8.6%
1	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
2	2.0740	2.0760	2.0780	2.0800	2.0820	2.0840	2.0860
3	3.2275	3.2338	3.2401	3.2464	3.2527	3.2591	3.2654
4	4.4663	4.4795	4.4928	4.5061	4.5194	4.5328	4.5462
5	5.7968	5.8200	5.8432	5.8666	5.8900	5.9136	5.9372
6	7.2258	7.2623	7.2990	7.3359	7.3730	7.4103	7.4478
7	8.7605	8.8142	8.8683	8.9228	8.9776	9.0328	9.0883
8	10.4088	10.4841	10.5601	10.6366	10.7138	10.7915	10.8699
9	12.1790	12.2809	12.3838	12.4876	12.5923	12.6980	12.8047
10	14.0803	14.2143	14.3497	14.4866	14.6249	14.7647	14.9059
11	16.1222	16.2946	16.4690	16.6455	16.8241	17.0049	17.1878
12	18.3152	18.5329	18.7536	18.9771	19.2037	19.4333	19.6660
13	20.6706	20.9414	21.2163	21.4953	21.7784	22.0657	22.3572
14	23.2002	23.5330	23.8712	24.2149	24.5642	24.9192	25.2800
15	25.9170	26.3215	26.7332	27.1521	27.5785	28.0124	28.4540
16	28.8349	29.3219	29.8183	30.3243	30.8399	31.3655	31.9011
17	31.9686	32.5504	33.1442	33.7502	34.3688	35.0002	35.6446
18	35.3343	36.0242	36.7294	37.4502	38.1870	38.9402	39.7100
19	38.9491	39.7621	40.5943	41.4463	42.3184	43.2112	44.1251
20	42.8313	43.7840	44.7607	45.7620	46.7885	47.8409	48.9198
21	47.0008	48.1116	49.2520	50.4229	51.6251	52.8595	54.1269
22	51.4789	52.7681	54.0937	55.4567	56.8584	58.2997	59.7819
23	56.2883	57.7784	59.3130	60.8933	62.5208	64.1969	65.9231
24	61.4536	63.1696	64.9394	66.7648	68.6475	70.5894	72.5925
25	67.0012	68.9705	71.0046	73.1059	75.2766	77.5189	79.8354
26	72.9593	75.2122	77.5430	79.9544	82.4493	85.0305	87.7013
27	79.3583	81.9284	84.5914	87.3508	90.2101	93.1731	96.2436
28	86.2308	89.1549	92.1895	95.3388	98.6073	101.9996	105.5205
29	93.6119	96.9307	100.3803	103.9659	107.6931	111.5676	115.5953
30	101.5392	105.2974	109.2099	113.2832	117.5240	121.9393	126.5365
31	110.0531	114.3000	118.7283	123.3458	128.1609	133.1822	138.4186
32	119.1970	123.9868	128.9891	134.2135	139.6701	145.3695	151.3226
33	129.0176	134.4098	140.0503	145.9506	152.1231	158.5805	165.3364
34	139.5649	145.6250	151.9742	158.6266	165.5972	172.9013	180.5553
35	150.8927	157.6925	164.8282	172.3168	180.1761	188.4250	197.0831
36	163.0587	170.6771	178.6848	187.1021	195.9506	205.2527	215.0322
37	176.1251	184.6485	193.6222	203.0703	213.0185	223.4939	234.5250
38	190.1583	199.6818	209.7247	220.3159	231.4860	243.2674	255.6941
39	205.2300	215.8577	227.0832	238.9412	251.4679	264.7018	278.6838
40	221.4171	233.2628	245.7957	259.0565	273.0882	287.9368	303.6506
41	238.8019	251.9908	265.9678	280.7810	296.4815	313.1235	330.7645
42	257.4733	272.1421	287.7133	304.2434	321.7929	340.4258	360.2103
43	277.5263	293.8249	311.1549	329.5829	349.1800	370.0216	392.1883
44	299.0632	317.1556	336.4250	356.9495	378.8127	402.1034	426.9165
45	322.1939	342.2594	363.6661	386.5055	410.8754	436.8801	464.6314
46	347.0363	369.2711	393.0321	418.4259	445.5671	474.5780	505.5896
47	373.7170	398.3357	424.6886	452.9000	483.1036	515.4426	550.0703
48	402.3720	429.6093	458.8143	490.1320	523.7181	559.7397	598.3764
49	433.1475	463.2596	495.6018	530.3426	567.6630	607.7579	650.8367
50	466.2005	499.4673	535.2587	573.7700	615.2114	659.8095	707.8087

FUTURE VALUE ANNUITY FACTORS

INTEREST RATE

YEAR	8.8%	9.0%	9.2%	9.4%	9.6%	9.8%	10.0%
1	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
2	2.0880	2.0900	2.0920	2.0940	2.0960	2.0980	2.1000
3	3.2717	3.2781	3.2845	3.2908	3.2972	3.3036	3.3100
4	4.5597	4.5731	4.5866	4.6002	4.6137	4.6274	4.6410
5	5.9609	5.9847	6.0086	6.0326	6.0567	6.0808	6.1051
6	7.4855	7.5233	7.5614	7.5997	7.6381	7.6768	7.7156
7	9.1442	9.2004	9.2570	9.3140	9.3714	9.4291	9.4872
8	10.9489	11.0285	11.1087	11.1895	11.2710	11.3531	11.4359
9	12.9124	13.0210	13.1307	13.2414	13.3530	13.4657	13.5795
10	15.0487	15.1929	15.3387	15.4860	15.6349	15.7854	15.9374
11	17.3729	17.5603	17.7499	17.9417	18.1359	18.3323	18.5312
12	19.9018	20.1407	20.3829	20.6283	20.8769	21.1289	21.3843
13	22.6531	22.9534	23.2581	23.5673	23.8811	24.1996	24.5227
14	25.6466	26.0192	26.3978	26.7826	27.1737	27.5711	27.9750
15	28.9035	29.3609	29.8264	30.3002	30.7824	31.2731	31.7725
16	32.4470	33.0034	33.5705	34.1484	34.7375	35.3378	35.9497
17	36.3023	36.9737	37.6589	38.3584	39.0723	39.8009	40.5447
18	40.4970	41.3013	42.1236	42.9641	43.8232	44.7014	45.5992
19	45.0607	46.0185	46.9989	48.0027	49.0302	50.0822	51.1591
20	50.0260	51.1601	52.3228	53.5149	54.7371	55.9902	57.2750
21	55.4283	56.7645	58.1365	59.5453	60.9919	62.4773	64.0025
22	61.3060	62.8733	64.4851	66.1426	67.8471	69.6000	71.4027
23	67.7009	69.5319	71.4177	73.3600	75.3604	77.4208	79.5430
24	74.6586	76.7898	78.9882	81.2558	83.5951	86.0081	88.4973
25	82.2286	84.7009	87.2551	89.8939	92.6202	95.4369	98.3470
26	90.4647	93.3240	96.2825	99.3439	102.5117	105.7897	109.1817
27	99.4256	102.7231	106.1405	109.6822	113.3528	117.1571	121.0999
28	109.1750	112.9682	116.9055	120.9924	125.2347	129.6385	134.2099
29	119.7824	124.1353	128.6608	133.3657	138.2572	143.3430	148.6309
30	131.3233	136.3075	141.4976	146.9020	152.5299	158.3906	164.4940
31	143.8797	149.5752	155.5153	161.7108	168.1728	174.9129	181.9434
32	157.5412	164.0370	170.8227	177.9116	185.3174	193.0544	201.1377
33	172.4048	179.8003	187.5384	195.6353	204.1078	212.9737	222.2514
34	188.5764	196.9823	205.7920	215.0250	224.7022	234.8451	245.4766
35	206.1711	215.7107	225.7248	236.2374	247.2736	258.8600	271.0242
36	225.3142	236.1247	247.4915	259.4437	272.0119	285.2282	299.1267
37	246.1418	258.3759	271.2607	284.8314	299.1250	314.1806	330.0393
38	268.8023	282.6298	297.2167	312.6056	328.8410	345.9703	364.0432
39	293.4569	309.0664	325.5606	342.9905	361.4097	380.8754	401.4476
40	320.2811	337.8824	356.5122	376.2316	397.1051	419.2011	442.5923
41	349.4659	369.2918	390.3113	412.5973	436.2271	461.2829	487.8515
42	381.2189	403.5281	427.2200	452.3815	479.1049	507.4886	537.6367
43	415.7661	440.8456	467.5242	495.9053	526.0990	558.2224	592.4003
44	453.3535	481.5217	511.5364	543.5204	577.6045	613.9282	652.6403
45	494.2486	525.8587	559.5978	595.6113	634.0545	675.0932	718.9044
46	538.7425	574.1859	612.0808	652.5988	695.9238	742.2523	791.7948
47	587.1519	626.8627	669.3922	714.9431	763.7324	815.9930	871.9742
48	639.8212	684.2803	731.9763	783.1477	838.0507	896.9603	960.1717
49	697.1255	746.8655	800.3181	857.7636	919.5036	985.8624	1057.1888
50	759.4725	815.0834	874.9474	939.3934	1008.7759	1083.4769	1163.9077

FUTURE VALUE ANNUITY FACTORS

INTEREST RATE

YEAR	10.2%	10.4%	10.6%	10.8%	11.0%	11.2%	11.4%
1	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
2	2.1020	2.1040	2.1060	2.1080	2.1100	2.1120	2.1140
3	3.3164	3.3228	3.3292	3.3357	3.3421	3.3485	3.3550
4	4.6547	4.6684	4.6821	4.6959	4.7097	4.7236	4.7375
5	6.1295	6.1539	6.1784	6.2031	6.2278	6.2526	6.2775
6	7.7547	7.7939	7.8334	7.8730	7.9129	7.9529	7.9932
7	9.5456	9.6045	9.6637	9.7233	9.7833	9.8436	9.9044
8	11.5193	11.6033	11.6880	11.7734	11.8594	11.9461	12.0335
9	13.6943	13.8101	13.9270	14.0449	14.1640	14.2841	14.4053
10	16.0911	16.2463	16.4032	16.5618	16.7220	16.8839	17.0475
11	18.7324	18.9360	19.1420	19.3505	19.5614	19.7749	19.9909
12	21.6431	21.9053	22.1710	22.4403	22.7132	22.9897	23.2699
13	24.8507	25.1834	25.5212	25.8639	26.2116	26.5645	26.9227
14	28.3854	28.8025	29.2264	29.6572	30.0949	30.5398	30.9919
15	32.2807	32.7980	33.3244	33.8601	34.4054	34.9602	35.5249
16	36.5734	37.2090	37.8568	38.5170	39.1899	39.8758	40.5748
17	41.3038	42.0787	42.8696	43.6769	44.5008	45.3419	46.2003
18	46.5168	47.4549	48.4138	49.3940	50.3959	51.4202	52.4671
19	52.2616	53.3902	54.5456	55.7285	56.9395	58.1792	59.4484
20	58.5922	59.9428	61.3275	62.7472	64.2028	65.6953	67.2255
21	65.5686	67.1768	68.8282	70.5239	72.2651	74.0531	75.8892
22	73.2566	75.1632	77.1240	79.1405	81.2143	83.3471	85.5406
23	81.7288	83.9802	86.2991	88.6876	91.1479	93.6820	96.2922
24	91.0652	93.7141	96.4468	99.2659	102.1741	105.1743	108.2695
25	101.3538	104.4604	107.6702	110.9866	114.4133	117.9539	121.6122
26	112.6919	116.3243	120.0832	123.9732	127.9987	132.1647	136.4760
27	125.1865	129.4220	133.8120	138.3623	143.0786	147.9672	153.0343
28	138.9555	143.8819	148.9961	154.3054	159.8172	165.5395	171.4802
29	154.1290	159.8456	165.7897	171.9704	178.3971	185.0799	192.0289
30	170.8501	177.4696	184.3634	191.5432	199.0208	206.8088	214.9202
31	189.2768	196.9264	204.9059	213.2298	221.9131	230.9714	240.4211
32	209.5831	218.4067	227.6260	237.2586	247.3235	257.8402	268.8291
33	231.9605	242.1210	252.7543	263.8826	275.5291	287.7183	300.4756
34	256.6205	268.3016	280.5463	293.3819	306.8373	320.9428	335.7298
35	283.7958	297.2050	311.2842	326.0671	341.5894	357.8883	375.0030
36	313.7430	329.1143	345.2803	362.2824	380.1643	398.9718	418.7533
37	346.7447	364.3422	382.8800	402.4089	422.9823	444.6567	467.4912
38	383.1127	403.2338	424.4653	446.8690	470.5104	495.4582	521.7852
39	423.1902	446.1701	470.4586	496.1309	523.2665	551.9495	582.2687
40	467.3556	493.5718	521.3272	550.7130	581.8258	614.7678	649.6473
41	516.0259	545.9032	577.5878	611.1900	646.8266	684.6218	724.7071
42	569.6605	603.6771	639.8122	678.1985	718.9776	762.2995	808.3237
43	628.7659	667.4596	708.6322	752.4440	799.0651	848.6770	901.4726
44	693.9000	737.8754	784.7472	834.7079	887.9622	944.7288	1005.2404
45	765.6778	815.6144	868.9304	925.8563	986.6381	1051.5384	1120.8378
46	844.7769	901.4383	962.0371	1026.8488	1096.1682	1170.3107	1249.6133
47	931.9442	996.1879	1065.0130	1138.7485	1217.7467	1302.3854	1393.0692
48	1028.0025	1100.7914	1178.9044	1262.7333	1352.6989	1449.2526	1552.8790
49	1133.8587	1216.2737	1304.8682	1400.1085	1502.4957	1612.5689	1730.9072
50	1250.5123	1343.7662	1444.1842	1552.3202	1668.7702	1794.1765	1929.2306

FUTURE VALUE ANNUITY FACTORS

INTEREST RATE

YEAR	11.6%	11.8%	12.0%	12.2%	12.4%	12.6%	12.8%
1	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
2	2.1160	2.1180	2.1200	2.1220	2.1240	2.1260	2.1280
3	3.3615	3.3679	3.3744	3.3809	3.3874	3.3939	3.4004
4	4.7514	4.7653	4.7793	4.7934	4.8074	4.8215	4.8356
5	6.3025	6.3276	6.3528	6.3781	6.4035	6.4290	6.4546
6	8.0336	8.0743	8.1152	8.1563	8.1976	8.2391	8.2808
7	9.9655	10.0271	10.0890	10.1513	10.2141	10.2772	10.3407
8	12.1215	12.2103	12.2997	12.3898	12.4806	12.5721	12.6643
9	14.5276	14.6511	14.7757	14.9014	15.0282	15.1562	15.2854
10	17.2129	17.3799	17.5487	17.7193	17.8917	18.0659	18.2419
11	20.2095	20.4307	20.6546	20.8811	21.1103	21.3422	21.5769
12	23.5539	23.8416	24.1331	24.4286	24.7279	25.0313	25.3387
13	27.2861	27.6549	28.0291	28.4089	28.7942	29.1852	29.5820
14	31.4513	31.9182	32.3926	32.8747	33.3647	33.8626	34.3686
15	36.0996	36.6845	37.2797	37.8855	38.5019	39.1293	39.7677
16	41.2872	42.0133	42.7533	43.5075	44.2762	45.0596	45.8580
17	47.0765	47.9708	48.8837	49.8154	50.7664	51.7371	52.7278
18	53.5374	54.6314	55.7497	56.8929	58.0614	59.2559	60.4770
19	60.7477	62.0779	63.4397	64.8338	66.2610	67.7222	69.2180
20	68.7945	70.4031	72.0524	73.7435	75.4774	77.2552	79.0779
21	77.7746	79.7107	81.6987	83.7402	85.8366	87.9893	90.1999
22	87.7965	90.1165	92.5026	94.9565	97.4803	100.0760	102.7455
23	98.9809	101.7503	104.6029	107.5412	110.5679	113.6856	116.8969
24	111.4626	114.7568	118.1552	121.6613	125.2783	129.0099	132.8597
25	125.3923	129.2981	133.3339	137.5040	141.8128	146.2652	150.8658
26	140.9378	145.5553	150.3339	155.2794	160.3976	165.6946	171.1766
27	158.2866	163.7308	169.3740	175.2235	181.2869	187.5721	194.0872
28	177.6478	184.0510	190.6989	197.6008	204.7665	212.2062	219.9304
29	199.2550	206.7691	214.5827	222.7081	231.1576	239.9442	249.0814
30	223.3686	232.1678	241.3327	250.8785	260.8211	271.1771	281.9639
31	250.2793	260.5636	271.2926	282.4856	294.1629	306.3455	319.0552
32	280.3117	292.3101	304.8477	317.9489	331.6391	345.9450	360.8943
33	313.8279	327.8027	342.4294	357.7387	373.7624	390.5340	408.0888
34	351.2319	367.4834	384.5210	402.3828	421.1089	440.7413	461.3241
35	392.9748	411.8465	431.6635	452.4735	474.3264	497.2747	521.3736
36	439.5599	461.4443	484.4631	508.6752	534.1429	560.9313	589.1094
37	491.5489	516.8948	543.5987	571.7336	601.3766	632.6087	665.5154
38	549.5685	578.8884	609.8305	642.4851	676.9473	713.3174	751.7014
39	614.3185	648.1972	684.0101	721.8683	761.8887	804.1953	848.9192
40	686.5794	725.6845	767.0914	810.9362	857.3629	906.5239	958.5808
41	767.2227	812.3152	860.1423	910.8704	964.6759	1021.7459	1082.2791
42	857.2205	909.1684	964.3594	1022.9966	1085.2957	1151.4859	1221.8109
43	957.6581	1017.4503	1081.0825	1148.8022	1220.8724	1297.5731	1379.2026
44	1069.7464	1138.5094	1211.8124	1289.9560	1373.2605	1462.0673	1556.7406
45	1194.8370	1273.8535	1358.2299	1448.3306	1544.5448	1647.2878	1757.0033
46	1334.4381	1425.1683	1522.2175	1626.0270	1737.0683	1855.8460	1982.8997
47	1490.2329	1594.3381	1705.8836	1825.4022	1953.4648	2090.6826	2237.7109
48	1664.0999	1783.4700	1911.5896	2049.1013	2196.6944	2355.1086	2525.1379
49	1858.1355	1994.9195	2141.9804	2300.0917	2470.0845	2652.8522	2849.3555
50	2074.6793	2231.3200	2400.0180	2581.7028	2777.3750	2988.1116	3215.0730

FUTURE VALUE ANNUITY FACTORS

INTEREST RATE

YEAR	13%	14%	15%	16%	17%	18%	19%
1	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
2	2.1300	2.1400	2.1500	2.1600	2.1700	2.1800	2.1900
3	3.4069	3.4396	3.4725	3.5056	3.5389	3.5724	3.6061
4	4.8498	4.9211	4.9934	5.0665	5.1405	5.2154	5.2913
5	6.4803	6.6101	6.7424	6.8771	7.0144	7.1542	7.2966
6	8.3227	8.5355	8.7537	8.9775	9.2068	9.4420	9.6830
7	10.4047	10.7305	11.0668	11.4139	11.7720	12.1415	12.5227
8	12.7573	13.2328	13.7268	14.2401	14.7733	15.3270	15.9020
9	15.4157	16.0853	16.7858	17.5185	18.2847	19.0859	19.9234
10	18.4197	19.3373	20.3037	21.3215	22.3931	23.5213	24.7089
11	21.8143	23.0445	24.3493	25.7329	27.1999	28.7551	30.4036
12	25.6502	27.2707	29.0017	30.8502	32.8239	34.9311	37.1802
13	29.9847	32.0887	34.3519	36.7862	39.4040	42.2187	45.2445
14	34.8827	37.5811	40.5047	43.6720	47.1027	50.8180	54.8409
15	40.4175	43.8424	47.5804	51.6595	56.1101	60.9653	66.2607
16	46.6717	50.9804	55.7175	60.9250	66.6489	72.9390	79.8502
17	53.7391	59.1176	65.0751	71.6730	78.9792	87.0681	96.0218
18	61.7251	68.3941	75.8364	84.1407	93.4056	103.7403	115.2659
19	70.7494	78.9692	88.2118	98.6032	110.2846	123.4136	138.1664
20	80.9468	91.0249	102.4436	115.3798	130.0330	146.6280	165.4181
21	92.4699	104.7684	118.8101	134.8405	153.1386	174.0211	197.8475
22	105.4910	120.4360	137.6316	157.4150	180.1721	206.3448	236.4385
23	120.2048	138.2970	159.2764	183.6014	211.8014	244.4869	282.3619
24	136.8315	158.6586	184.1679	213.9776	248.8076	289.4946	337.0106
25	155.6195	181.8708	212.7930	249.2141	292.1049	342.6036	402.0427
26	176.8501	208.3327	245.7120	290.0883	342.7628	405.2723	479.4308
27	200.8406	238.4993	283.5688	337.5025	402.0325	479.2213	571.5226
28	227.9499	272.8892	327.1041	392.5029	471.3780	566.4811	681.1120
29	258.5834	312.0937	377.1697	456.3033	552.5122	669.4477	811.5233
30	293.1992	356.7869	434.7452	530.3119	647.4393	790.9483	966.7127
31	332.3151	407.7370	500.9570	616.1618	758.5040	934.3191	1151.3881
32	376.5160	465.8202	577.1005	715.7476	888.4497	1103.4965	1371.1519
33	426.4631	532.0350	664.6656	831.2673	1040.4862	1303.1259	1632.6708
34	482.9033	607.5199	765.3655	965.2700	1218.3689	1538.6886	1943.8783
35	546.6808	693.5727	881.1703	1120.7133	1426.4916	1816.6526	2314.2153
36	618.7493	791.6729	1014.3458	1301.0274	1669.9952	2144.6501	2754.9162
37	700.1867	903.5071	1167.4977	1510.1918	1954.8944	2531.6871	3279.3504
38	792.2109	1030.9981	1343.6224	1752.8225	2288.2265	2988.3909	3903.4270
39	896.1983	1176.3378	1546.1657	2034.2741	2678.2250	3527.3013	4646.0783
40	1013.7041	1342.0251	1779.0906	2360.7580	3134.5233	4163.2156	5529.8333
41	1146.4856	1530.9086	2046.9542	2739.4793	3668.3923	4913.5945	6581.5018
42	1296.5288	1746.2358	2354.9974	3178.7960	4293.0191	5799.0417	7832.9873
43	1466.0775	1991.7089	2709.2470	3688.4034	5023.8324	6843.8693	9322.2551
44	1657.6676	2271.5481	3116.6340	4279.5480	5878.8840	8076.7659	11094.4838
45	1874.1643	2590.5648	3585.1292	4965.2757	6879.2944	9531.5840	13203.4360
46	2118.8057	2954.2439	4123.8985	5760.7199	8049.7746	11248.2693	15713.0892
47	2395.2504	3368.8381	4743.4834	6683.4352	9419.2364	13273.9580	18699.5766
48	2707.6330	3841.4754	5456.0059	7753.7849	11021.5067	15664.2707	22253.4967
49	3060.6252	4380.2820	6275.4068	8995.3905	12896.1630	18484.8398	26482.6617
50	3459.5065	4994.5215	7217.7179	10435.6531	15089.5110	21813.1114	31515.3681

Appendix C

PRESENT VALUE TABLES

A present value annuity factor table is used to show what a series of regular contributions or payments (an annuity) to be received for a given number of years in the future is worth today. Present value annuity tables are used in this book primarily for calculating substantially equal periodic payments under the premature distribution penalty tax.

Term certain annuity factors are used to value an annuity for a given number of years (e.g., 10 years). Single life annuity factors are used to value an annuity for a person's life (e.g., for the rest of the life of a person age 40).

The single life annuity factors in this appendix are based on mortality Table 90 CM. Tables based on mortality Table 90 CM are used by the Service under Code section 7520 to value annuities, life estates, and remainders for a wide variety of purposes.

A present value annuity factor table is used to show what a stream of payments to be received in the future for a given number of years, or for life, is worth today assuming a given interest rate. For example, at 7% interest, payments of $1,000 per year for 10 years are worth $7,023.60 today ($1,000 x 7.0236 term certain annuity factor). On the other hand, at 7% interest, payments of $1,000 per year for life for a person age 40 are worth $12,469.70 today ($1,000 x 12.4697 single life annuity factor).

For term certain periodic contributions other than annually at the end of the year, a factor from either Annuity Adjustment Factor Table A (if payments are at end of period) or Annuity Adjustment Factor Table B (if payments are at beginning of period) could be multiplied by the present value annuity factor to produce a factor that is adjusted for frequency of payments.

For periodic contributions for a single life other than annually at the end of the year, a factor from Annuity Adjustment Factor Table A could

be multiplied by the present value annuity factor to produce a factor that is adjusted for frequency of payments. If the payments are at the beginning of each period, the frequency adjusted annuity factor could be increased by 1 ÷ the number of payments per year. For example if payments are quarterly at the beginning of each period, the frequency adjusted annuity factor would be increased by .25 (1 ÷ 4).

In general, dividing a given fund by a present value annuity factor (with appropriate adjustments for frequency of payments) produces the payment amount which will exhaust the fund in a given number of years or over the life of the annuitant. This is generally known as amortizing or annuitizing the fund.

There is an exception to the premature distribution penalty tax for substantially equal periodic payments (see Chapter 13). The amortization and annuitization methods for calculating substantially equal periodic payments use present value annuity tables.

ANNUITY ADJUSTMENT FACTORS TABLE A*

FREQUENCY OF PAYMENTS

INTEREST RATE	ANNUALLY	SEMI ANNUALLY	QUARTERLY	MONTHLY	WEEKLY
5.2%	1.0000	1.0128	1.0193	1.0236	1.0253
5.4%	1.0000	1.0133	1.0200	1.0245	1.0262
5.6%	1.0000	1.0138	1.0208	1.0254	1.0272
5.8%	1.0000	1.0143	1.0215	1.0263	1.0282
6.0%	1.0000	1.0148	1.0222	1.0272	1.0291
6.2%	1.0000	1.0153	1.0230	1.0281	1.0301
6.4%	1.0000	1.0158	1.0237	1.0290	1.0311
6.6%	1.0000	1.0162	1.0244	1.0299	1.0320
6.8%	1.0000	1.0167	1.0252	1.0308	1.0330
7.0%	1.0000	1.0172	1.0259	1.0317	1.0339
7.2%	1.0000	1.0177	1.0266	1.0326	1.0349
7.4%	1.0000	1.0182	1.0273	1.0335	1.0358
7.6%	1.0000	1.0187	1.0281	1.0344	1.0368
7.8%	1.0000	1.0191	1.0288	1.0353	1.0378
8.0%	1.0000	1.0196	1.0295	1.0362	1.0387
8.2%	1.0000	1.0201	1.0302	1.0370	1.0397
8.4%	1.0000	1.0206	1.0310	1.0379	1.0406
8.6%	1.0000	1.0211	1.0317	1.0388	1.0416
8.8%	1.0000	1.0215	1.0324	1.0397	1.0425
9.0%	1.0000	1.0220	1.0331	1.0406	1.0435
9.2%	1.0000	1.0225	1.0339	1.0415	1.0444
9.4%	1.0000	1.0230	1.0346	1.0424	1.0454
9.6%	1.0000	1.0235	1.0353	1.0433	1.0463
9.8%	1.0000	1.0239	1.0360	1.0442	1.0473
10.0%	1.0000	1.0244	1.0368	1.0450	1.0482
10.2%	1.0000	1.0249	1.0375	1.0459	1.0492
10.4%	1.0000	1.0254	1.0382	1.0468	1.0501
10.6%	1.0000	1.0258	1.0389	1.0477	1.0511
10.8%	1.0000	1.0263	1.0396	1.0486	1.0520
11.0%	1.0000	1.0268	1.0404	1.0495	1.0530
11.2%	1.0000	1.0273	1.0411	1.0503	1.0539
11.4%	1.0000	1.0277	1.0418	1.0512	1.0549
11.6%	1.0000	1.0282	1.0425	1.0521	1.0558
11.8%	1.0000	1.0287	1.0432	1.0530	1.0568
12.0%	1.0000	1.0292	1.0439	1.0539	1.0577

* For use in calculating the value of an annuity payable at the end of each period or, if the term of the annuity is determined with respect to one or more lives, an annuity payable at the beginning of each period.

ANNUITY ADJUSTMENT FACTORS TABLE B*

FREQUENCY OF PAYMENTS

INTEREST RATE	ANNUALLY	SEMI ANNUALLY	QUARTERLY	MONTHLY	WEEKLY
5.2%	1.0520	1.0388	1.0323	1.0279	1.0263
5.4%	1.0540	1.0403	1.0335	1.0290	1.0273
5.6%	1.0560	1.0418	1.0348	1.0301	1.0283
5.8%	1.0580	1.0433	1.0360	1.0311	1.0293
6.0%	1.0600	1.0448	1.0372	1.0322	1.0303
6.2%	1.0620	1.0463	1.0385	1.0333	1.0313
6.4%	1.0640	1.0478	1.0397	1.0343	1.0323
6.6%	1.0660	1.0492	1.0409	1.0354	1.0333
6.8%	1.0680	1.0507	1.0422	1.0365	1.0343
7.0%	1.0700	1.0522	1.0434	1.0375	1.0353
7.2%	1.0720	1.0537	1.0446	1.0386	1.0363
7.4%	1.0740	1.0552	1.0458	1.0396	1.0373
7.6%	1.0760	1.0567	1.0471	1.0407	1.0383
7.8%	1.0780	1.0581	1.0483	1.0418	1.0393
8.0%	1.0800	1.0596	1.0495	1.0428	1.0403
8.2%	1.0820	1.0611	1.0507	1.0439	1.0413
8.4%	1.0840	1.0626	1.0520	1.0449	1.0422
8.6%	1.0860	1.0641	1.0532	1.0460	1.0432
8.8%	1.0880	1.0655	1.0544	1.0471	1.0442
9.0%	1.0900	1.0670	1.0556	1.0481	1.0452
9.2%	1.0920	1.0685	1.0569	1.0492	1.0462
9.4%	1.0940	1.0700	1.0581	1.0502	1.0472
9.6%	1.0960	1.0715	1.0593	1.0513	1.0482
9.8%	1.0980	1.0729	1.0605	1.0523	1.0492
10.0%	1.1000	1.0744	1.0618	1.0534	1.0502
10.2%	1.1020	1.0759	1.0630	1.0544	1.0512
10.4%	1.1040	1.0774	1.0642	1.0555	1.0521
10.6%	1.1060	1.0788	1.0654	1.0565	1.0531
10.8%	1.1080	1.0803	1.0666	1.0576	1.0541
11.0%	1.1100	1.0818	1.0679	1.0586	1.0551
11.2%	1.1120	1.0833	1.0691	1.0597	1.0561
11.4%	1.1140	1.0847	1.0703	1.0607	1.0571
11.6%	1.1160	1.0862	1.0715	1.0618	1.0581
11.8%	1.1180	1.0877	1.0727	1.0628	1.0590
12.0%	1.1200	1.0892	1.0739	1.0639	1.0600

* For use in calculating the value of a term certain annuity payable at the beginning of each period.

TERM CERTAIN ANNUITY FACTORS

INTEREST RATE

YEAR	5.0%	5.2%	5.4%	5.6%	5.8%	6.0%	6.2%	6.4%	6.6%
1	0.9524	0.9506	0.9488	0.9470	0.9452	0.9434	0.9416	0.9398	0.9381
2	1.8594	1.8542	1.8489	1.8437	1.8385	1.8334	1.8283	1.8232	1.8181
3	2.7232	2.7131	2.7030	2.6929	2.6829	2.6730	2.6632	2.6534	2.6436
4	3.5460	3.5295	3.5132	3.4971	3.4810	3.4651	3.4493	3.4336	3.4180
5	4.3295	4.3056	4.2820	4.2586	4.2354	4.2124	4.1895	4.1669	4.1445
6	5.0757	5.0434	5.0114	4.9797	4.9484	4.9173	4.8866	4.8561	4.8260
7	5.7864	5.7447	5.7034	5.6626	5.6223	5.5824	5.5429	5.5039	5.4653
8	6.4632	6.4113	6.3600	6.3093	6.2592	6.2098	6.1609	6.1127	6.0650
9	7.1078	7.0449	6.9829	6.9217	6.8613	6.8017	6.7429	6.6848	6.6276
10	7.7217	7.6473	7.5739	7.5016	7.4303	7.3601	7.2908	7.2226	7.1553
11	8.3064	8.2199	8.1346	8.0508	7.9682	7.8869	7.8068	7.7280	7.6504
12	8.8633	8.7641	8.6666	8.5708	8.4765	8.3838	8.2927	8.2030	8.1148
13	9.3936	9.2815	9.1714	9.0633	8.9570	8.8527	8.7502	8.6494	8.5505
14	9.8986	9.7733	9.6503	9.5296	9.4112	9.2950	9.1809	9.0690	8.9592
15	10.3797	10.2408	10.1046	9.9712	9.8404	9.7122	9.5866	9.4634	9.3426
16	10.8378	10.6851	10.5357	10.3894	10.2462	10.1059	9.9685	9.8340	9.7022
17	11.2741	11.1075	10.9447	10.7854	10.6296	10.4773	10.3282	10.1823	10.0396
18	11.6896	11.5091	11.3327	11.1604	10.9921	10.8276	10.6668	10.5097	10.3561
19	12.0853	11.8907	11.7009	11.5156	11.3347	11.1581	10.9857	10.8174	10.6530
20	12.4622	12.2536	12.0502	11.8519	11.6585	11.4699	11.2860	11.1066	10.9315
21	12.8212	12.5984	12.3816	12.1703	11.9646	11.7641	11.5687	11.3784	11.1928
22	13.1630	12.9263	12.6960	12.4719	12.2538	12.0416	11.8350	11.6338	11.4379
23	13.4886	13.2379	12.9943	12.7575	12.5272	12.3034	12.0857	11.8739	11.6678
24	13.7986	13.5341	13.2773	13.0279	12.7857	12.5504	12.3217	12.0995	11.8835
25	14.0939	13.8157	13.5458	13.2840	13.0299	12.7834	12.5440	12.3116	12.0858
26	14.3752	14.0834	13.8006	13.5265	13.2608	13.0032	12.7533	12.5109	12.2756
27	14.6430	14.3378	14.0423	13.7562	13.4790	13.2105	12.9504	12.6982	12.4537
28	14.8981	14.5797	14.2716	13.9737	13.6853	13.4062	13.1359	12.8742	12.6207
29	15.1411	14.8096	14.4892	14.1796	13.8802	13.5907	13.3107	13.0397	12.7774
30	15.3725	15.0281	14.6957	14.3746	14.0645	13.7648	13.4752	13.1952	12.9244
31	15.5928	15.2358	14.8915	14.5593	14.2386	13.9291	13.6301	13.3413	13.0623
32	15.8027	15.4333	15.0773	14.7342	14.4033	14.0840	13.7760	13.4787	13.1917
33	16.0025	15.6210	15.2536	14.8998	14.5588	14.2302	13.9134	13.6078	13.3130
34	16.1929	15.7994	15.4209	15.0566	14.7059	14.3681	14.0427	13.7291	13.4268
35	16.3742	15.9691	15.5796	15.2051	14.8449	14.4982	14.1645	13.8432	13.5336
36	16.5469	16.1303	15.7302	15.3458	14.9763	14.6210	14.2792	13.9504	13.6338
37	16.7113	16.2835	15.8730	15.4790	15.1005	14.7368	14.3872	14.0511	13.7277
38	16.8679	16.4292	16.0086	15.6051	15.2178	14.8460	14.4889	14.1458	13.8159
39	17.0170	16.5677	16.1372	15.7245	15.3288	14.9491	14.5847	14.2347	13.8986
40	17.1591	16.6993	16.2592	15.8376	15.4336	15.0463	14.6748	14.3184	13.9762
41	17.2944	16.8245	16.3749	15.9447	15.5327	15.1380	14.7597	14.3970	14.0489
42	17.4232	16.9434	16.4848	16.0461	15.6264	15.2245	14.8397	14.4708	14.1172
43	17.5459	17.0565	16.5890	16.1421	15.7149	15.3062	14.9149	14.5402	14.1812
44	17.6628	17.1639	16.6878	16.2331	15.7986	15.3832	14.9858	14.6055	14.2413
45	17.7741	17.2661	16.7816	16.3192	15.8777	15.4558	15.0526	14.6668	14.2977
46	17.8801	17.3632	16.8706	16.4008	15.9524	15.5244	15.1154	14.7245	14.3505
47	17.9810	17.4555	16.9550	16.4780	16.0231	15.5890	15.1746	14.7786	14.4001
48	18.0772	17.5433	17.0351	16.5511	16.0899	15.6500	15.2303	14.8295	14.4466
49	18.1687	17.6267	17.1111	16.6204	16.1530	15.7076	15.2828	14.8774	14.4903
50	18.2559	17.7060	17.1832	16.6860	16.2127	15.7619	15.3322	14.9223	14.5312
51	18.3390	17.7813	17.2516	16.7481	16.2691	15.8131	15.3787	14.9646	14.5696
52	18.4181	17.8530	17.3165	16.8069	16.3224	15.8614	15.4225	15.0043	14.6057
53	18.4934	17.9211	17.3781	16.8626	16.3728	15.9070	15.4637	15.0417	14.6395
54	18.5651	17.9858	17.4366	16.9153	16.4204	15.9500	15.5026	15.0768	14.6712
55	18.6335	18.0474	17.4920	16.9653	16.4654	15.9905	15.5392	15.1097	14.7009

TERM CERTAIN ANNUITY FACTORS

INTEREST RATE

YEAR	6.8%	7.0%	7.2%	7.4%	7.6%	7.8%	8.0%	8.2%	8.4%
1	0.9363	0.9346	0.9328	0.9311	0.9294	0.9276	0.9259	0.9242	0.9225
2	1.8130	1.8080	1.8030	1.7980	1.7931	1.7882	1.7833	1.7784	1.7735
3	2.6339	2.6243	2.6148	2.6053	2.5958	2.5864	2.5771	2.5678	2.5586
4	3.4026	3.3872	3.3720	3.3568	3.3418	3.3269	3.3121	3.2974	3.2829
5	4.1222	4.1002	4.0783	4.0567	4.0352	4.0138	3.9927	3.9718	3.9510
6	4.7961	4.7665	4.7373	4.7082	4.6795	4.6511	4.6229	4.5950	4.5673
7	5.4271	5.3893	5.3519	5.3149	5.2784	5.2422	5.2064	5.1709	5.1359
8	6.0179	5.9713	5.9253	5.8798	5.8349	5.7905	5.7466	5.7033	5.6604
9	6.5710	6.5152	6.4602	6.4058	6.3521	6.2992	6.2469	6.1953	6.1443
10	7.0890	7.0236	6.9591	6.8955	6.8328	6.7710	6.7101	6.6500	6.5907
11	7.5739	7.4987	7.4245	7.3515	7.2796	7.2088	7.1390	7.0702	7.0025
12	8.0280	7.9427	7.8587	7.7761	7.6948	7.6148	7.5361	7.4586	7.3824
13	8.4532	8.3577	8.2637	8.1714	8.0807	7.9915	7.9038	7.8176	7.7328
14	8.8513	8.7455	8.6415	8.5395	8.4393	8.3409	8.2442	8.1493	8.0561
15	9.2241	9.1079	8.9940	8.8822	8.7726	8.6650	8.5595	8.4559	8.3543
16	9.5731	9.4466	9.3227	9.2013	9.0823	8.9657	8.8514	8.7393	8.6295
17	9.8999	9.7632	9.6294	9.4984	9.3702	9.2446	9.1216	9.0012	8.8833
18	10.2059	10.0591	9.9155	9.7751	9.6377	9.5033	9.3719	9.2433	9.1174
19	10.4924	10.3356	10.1824	10.0327	9.8863	9.7434	9.6036	9.4670	9.3334
20	10.7607	10.5940	10.4313	10.2725	10.1174	9.9660	9.8181	9.6737	9.5327
21	11.0119	10.8355	10.6635	10.4958	10.3322	10.1726	10.0168	9.8648	9.7165
22	11.2471	11.0612	10.8802	10.7037	10.5318	10.3641	10.2007	10.0414	9.8860
23	11.4673	11.2722	11.0822	10.8973	10.7173	10.5419	10.3711	10.2046	10.0425
24	11.6735	11.4693	11.2708	11.0776	10.8896	10.7068	10.5288	10.3555	10.1868
25	11.8666	11.6536	11.4466	11.2454	11.0499	10.8597	10.6748	10.4949	10.3199
26	12.0474	11.8258	11.6106	11.4017	11.1987	11.0016	10.8100	10.6238	10.4427
27	12.2166	11.9867	11.7636	11.5472	11.3371	11.1332	10.9352	10.7428	10.5560
28	12.3751	12.1371	11.9064	11.6827	11.4657	11.2553	11.0511	10.8529	10.6605
29	12.5235	12.2777	12.0395	11.8088	11.5853	11.3685	11.1584	10.9546	10.7569
30	12.6625	12.4090	12.1638	11.9263	11.6963	11.4736	11.2578	11.0486	10.8459
31	12.7926	12.5318	12.2796	12.0356	11.7996	11.5710	11.3498	11.1355	10.9279
32	12.9144	12.6466	12.3877	12.1375	11.8955	11.6615	11.4350	11.2158	11.0036
33	13.0285	12.7538	12.4885	12.2323	11.9847	11.7453	11.5139	11.2900	11.0735
34	13.1353	12.8540	12.5826	12.3206	12.0675	11.8231	11.5869	11.3586	11.1379
35	13.2353	12.9477	12.6703	12.4028	12.1446	11.8953	11.6546	11.4220	11.1973
36	13.3289	13.0352	12.7522	12.4793	12.2161	11.9622	11.7172	11.4806	11.2521
37	13.4166	13.1170	12.8285	12.5505	12.2826	12.0243	11.7752	11.5348	11.3027
38	13.4987	13.1935	12.8997	12.6169	12.3445	12.0819	11.8289	11.5848	11.3494
39	13.5755	13.2649	12.9662	12.6787	12.4019	12.1354	11.8786	11.6311	11.3924
40	13.6475	13.3317	13.0281	12.7362	12.4553	12.1850	11.9246	11.6738	11.4321
41	13.7149	13.3941	13.0860	12.7898	12.5049	12.2309	11.9672	11.7133	11.4687
42	13.7780	13.4524	13.1399	12.8396	12.5511	12.2736	12.0067	11.7498	11.5025
43	13.8371	13.5070	13.1902	12.8861	12.5939	12.3132	12.0432	11.7836	11.5337
44	13.8924	13.5579	13.2371	12.9293	12.6338	12.3499	12.0771	11.8148	11.5624
45	13.9442	13.6055	13.2809	12.9695	12.6708	12.3839	12.1084	11.8436	11.5890
46	13.9927	13.6500	13.3217	13.0070	12.7052	12.4155	12.1374	11.8702	11.6134
47	14.0381	13.6916	13.3598	13.0419	12.7372	12.4448	12.1643	11.8949	11.6360
48	14.0806	13.7305	13.3954	13.0744	12.7669	12.4720	12.1891	11.9176	11.6568
49	14.1204	13.7668	13.4285	13.1047	12.7945	12.4972	12.2122	11.9386	11.6761
50	14.1577	13.8007	13.4594	13.1328	12.8202	12.5206	12.2335	11.9581	11.6938
51	14.1926	13.8325	13.4883	13.1591	12.8440	12.5423	12.2532	11.9760	11.7101
52	14.2253	13.8621	13.5152	13.1835	12.8662	12.5624	12.2715	11.9926	11.7252
53	14.2559	13.8898	13.5403	13.2062	12.8868	12.5811	12.2884	12.0080	11.7391
54	14.2845	13.9157	13.5637	13.2274	12.9059	12.5984	12.3041	12.0222	11.7520
55	14.3114	13.9399	13.5855	13.2471	12.9237	12.6145	12.3186	12.0353	11.7638

TERM CERTAIN ANNUITY FACTORS

INTEREST RATE

YEAR	8.6%	8.8%	9.0%	9.2%	9.4%	9.6%	9.8%	10.0%	10.2%
1	0.9208	0.9191	0.9174	0.9158	0.9141	0.9124	0.9107	0.9091	0.9074
2	1.7687	1.7639	1.7591	1.7544	1.7496	1.7449	1.7402	1.7355	1.7309
3	2.5494	2.5403	2.5313	2.5223	2.5134	2.5045	2.4956	2.4869	2.4781
4	3.2684	3.2540	3.2397	3.2255	3.2115	3.1975	3.1836	3.1699	3.1562
5	3.9304	3.9099	3.8897	3.8696	3.8496	3.8298	3.8102	3.7908	3.7715
6	4.5399	4.5128	4.4859	4.4593	4.4329	4.4068	4.3809	4.3553	4.3299
7	5.1012	5.0669	5.0330	4.9994	4.9661	4.9332	4.9006	4.8684	4.8365
8	5.6181	5.5762	5.5348	5.4939	5.4535	5.4135	5.3740	5.3349	5.2963
9	6.0940	6.0443	5.9952	5.9468	5.8990	5.8517	5.8051	5.7590	5.7135
10	6.5322	6.4745	6.4177	6.3615	6.3062	6.2516	6.1977	6.1446	6.0921
11	6.9357	6.8700	6.8052	6.7413	6.6784	6.6164	6.5553	6.4951	6.4357
12	7.3073	7.2334	7.1607	7.0891	7.0187	6.9493	6.8810	6.8137	6.7474
13	7.6495	7.5675	7.4869	7.4076	7.3297	7.2530	7.1776	7.1034	7.0304
14	7.9645	7.8745	7.7862	7.6993	7.6140	7.5301	7.4477	7.3667	7.2871
15	8.2546	8.1567	8.0607	7.9664	7.8738	7.7829	7.6937	7.6061	7.5200
16	8.5217	8.4161	8.3126	8.2110	8.1114	8.0136	7.9178	7.8237	7.7314
17	8.7677	8.6545	8.5436	8.4350	8.3285	8.2241	8.1218	8.0216	7.9233
18	8.9942	8.8736	8.7556	8.6401	8.5269	8.4162	8.3077	8.2014	8.0973
19	9.2028	9.0750	8.9501	8.8279	8.7084	8.5914	8.4769	8.3649	8.2553
20	9.3948	9.2602	9.1285	8.9999	8.8742	8.7513	8.6311	8.5136	8.3986
21	9.5717	9.4303	9.2922	9.1574	9.0258	8.8971	8.7715	8.6487	8.5287
22	9.7345	9.5867	9.4424	9.3017	9.1643	9.0302	8.8993	8.7715	8.6467
23	9.8844	9.7304	9.5802	9.4338	9.2910	9.1517	9.0158	8.8832	8.7538
24	10.0225	9.8625	9.7066	9.5547	9.4067	9.2625	9.1219	8.9847	8.8510
25	10.1496	9.9839	9.8226	9.6655	9.5126	9.3636	9.2184	9.0770	8.9392
26	10.2667	10.0955	9.9290	9.7670	9.6093	9.4558	9.3064	9.1609	9.0193
27	10.3745	10.1981	10.0266	9.8598	9.6977	9.5400	9.3865	9.2372	9.0919
28	10.4737	10.2923	10.1161	9.9449	9.7785	9.6168	9.4595	9.3066	9.1578
29	10.5651	10.3790	10.1983	10.0228	9.8524	9.6868	9.5260	9.3696	9.2176
30	10.6493	10.4586	10.2737	10.0942	9.9199	9.7508	9.5865	9.4269	9.2719
31	10.7268	10.5318	10.3428	10.1595	9.9816	9.8091	9.6416	9.4790	9.3211
32	10.7982	10.5991	10.4062	10.2193	10.0381	9.8623	9.6918	9.5264	9.3658
33	10.8639	10.6609	10.4644	10.2741	10.0896	9.9109	9.7375	9.5694	9.4064
34	10.9244	10.7178	10.5178	10.3243	10.1368	9.9552	9.7792	9.6086	9.4432
35	10.9801	10.7700	10.5668	10.3702	10.1799	9.9956	9.8171	9.6442	9.4765
36	11.0314	10.8180	10.6118	10.4123	10.2193	10.0325	9.8516	9.6765	9.5068
37	11.0786	10.8622	10.6530	10.4508	10.2553	10.0661	9.8831	9.7059	9.5343
38	11.1221	10.9027	10.6908	10.4861	10.2882	10.0968	9.9117	9.7327	9.5593
39	11.1622	10.9400	10.7255	10.5184	10.3183	10.1248	9.9378	9.7570	9.5819
40	11.1991	10.9743	10.7574	10.5480	10.3458	10.1504	9.9616	9.7791	9.6025
41	11.2330	11.0058	10.7866	10.5751	10.3709	10.1737	9.9832	9.7991	9.6211
42	11.2643	11.0347	10.8134	10.5999	10.3939	10.1950	10.0030	9.8174	9.6380
43	11.2931	11.0613	10.8380	10.6226	10.4149	10.2144	10.0209	9.8340	9.6534
44	11.3196	11.0858	10.8605	10.6434	10.4341	10.2321	10.0373	9.8491	9.6673
45	11.3440	11.1082	10.8812	10.6625	10.4516	10.2483	10.0521	9.8628	9.6800
46	11.3665	11.1289	10.9002	10.6799	10.4677	10.2630	10.0657	9.8753	9.6914
47	11.3872	11.1479	10.9176	10.6959	10.4823	10.2765	10.0781	9.8866	9.7019
48	11.4063	11.1653	10.9336	10.7105	10.4957	10.2888	10.0893	9.8969	9.7113
49	11.4238	11.1814	10.9482	10.7239	10.5080	10.3000	10.0995	9.9063	9.7199
50	11.4400	11.1961	10.9617	10.7362	10.5192	10.3102	10.1089	9.9148	9.7277
51	11.4549	11.2097	10.9740	10.7474	10.5294	10.3195	10.1174	9.9226	9.7347
52	11.4686	11.2221	10.9853	10.7577	10.5388	10.3280	10.1251	9.9296	9.7411
53	11.4812	11.2336	10.9957	10.7671	10.5473	10.3358	10.1322	9.9360	9.7469
54	11.4928	11.2441	11.0053	10.7758	10.5551	10.3429	10.1386	9.9418	9.7522
55	11.5035	11.2538	11.0140	10.7837	10.5623	10.3493	10.1444	9.9471	9.7570

TERM CERTAIN ANNUITY FACTORS

INTEREST RATE

YEAR	10.4%	10.6%	10.8%	11.0%	11.2%	11.4%	11.6%	11.8%	12.0%
1	0.9058	0.9042	0.9025	0.9009	0.8993	0.8977	0.8961	0.8945	0.8929
2	1.7263	1.7217	1.7171	1.7125	1.7080	1.7035	1.6990	1.6945	1.6901
3	2.4694	2.4608	2.4522	2.4437	2.4352	2.4268	2.4184	2.4101	2.4018
4	3.1426	3.1291	3.1157	3.1024	3.0892	3.0761	3.0631	3.0502	3.0373
5	3.7524	3.7334	3.7146	3.6959	3.6774	3.6590	3.6408	3.6227	3.6048
6	4.3047	4.2797	4.2550	4.2305	4.2063	4.1822	4.1584	4.1348	4.1114
7	4.8050	4.7737	4.7428	4.7122	4.6819	4.6519	4.6222	4.5928	4.5638
8	5.2581	5.2204	5.1830	5.1461	5.1096	5.0735	5.0378	5.0025	4.9676
9	5.6686	5.6242	5.5804	5.5370	5.4943	5.4520	5.4103	5.3690	5.3282
10	6.0404	5.9893	5.9389	5.8892	5.8402	5.7917	5.7440	5.6968	5.6502
11	6.3772	6.3195	6.2626	6.2065	6.1512	6.0967	6.0430	5.9900	5.9377
12	6.6822	6.6180	6.5547	6.4924	6.4310	6.3705	6.3109	6.2522	6.1944
13	6.9585	6.8879	6.8183	6.7499	6.6825	6.6162	6.5510	6.4868	6.4235
14	7.2088	7.1319	7.0562	6.9819	6.9087	6.8368	6.7661	6.6966	6.6282
15	7.4355	7.3525	7.2710	7.1909	7.1122	7.0349	6.9589	6.8842	6.8109
16	7.6409	7.5520	7.4648	7.3792	7.2951	7.2126	7.1316	7.0521	6.9740
17	7.8269	7.7324	7.6397	7.5488	7.4596	7.3722	7.2864	7.2022	7.1196
18	7.9954	7.8954	7.7976	7.7016	7.6076	7.5154	7.4251	7.3365	7.2497
19	8.1480	8.0429	7.9400	7.8393	7.7406	7.6440	7.5494	7.4566	7.3658
20	8.2862	8.1762	8.0686	7.9633	7.8603	7.7594	7.6607	7.5641	7.4694
21	8.4114	8.2968	8.1847	8.0751	7.9679	7.8631	7.7605	7.6602	7.5620
22	8.5248	8.4058	8.2894	8.1757	8.0646	7.9561	7.8499	7.7461	7.6446
23	8.6276	8.5043	8.3839	8.2664	8.1517	8.0396	7.9300	7.8230	7.7184
24	8.7206	8.5934	8.4693	8.3481	8.2299	8.1145	8.0018	7.8918	7.7843
25	8.8049	8.6740	8.5463	8.4217	8.3003	8.1818	8.0661	7.9533	7.8431
26	8.8813	8.7468	8.6158	8.4881	8.3636	8.2422	8.1238	8.0083	7.8957
27	8.9504	8.8127	8.6785	8.5478	8.4205	8.2964	8.1754	8.0575	7.9426
28	9.0131	8.8722	8.7351	8.6016	8.4716	8.3450	8.2217	8.1015	7.9844
29	9.0698	8.9260	8.7862	8.6501	8.5177	8.3887	8.2632	8.1409	8.0218
30	9.1212	8.9747	8.8323	8.6938	8.5591	8.4279	8.3003	8.1761	8.0552
31	9.1677	9.0187	8.8739	8.7331	8.5963	8.4631	8.3336	8.2076	8.0850
32	9.2099	9.0585	8.9115	8.7686	8.6297	8.4947	8.3635	8.2358	8.1116
33	9.2481	9.0945	8.9454	8.8005	8.6598	8.5231	8.3902	8.2610	8.1354
34	9.2827	9.1270	8.9760	8.8293	8.6869	8.5486	8.4142	8.2835	8.1566
35	9.3141	9.1565	9.0036	8.8552	8.7112	8.5714	8.4356	8.3037	8.1755
36	9.3424	9.1831	9.0285	8.8786	8.7331	8.5919	8.4549	8.3217	8.1924
37	9.3681	9.2071	9.0510	8.8996	8.7528	8.6104	8.4721	8.3379	8.2075
38	9.3914	9.2288	9.0713	8.9186	8.7705	8.6269	8.4876	8.3523	8.2210
39	9.4125	9.2485	9.0896	8.9357	8.7864	8.6417	8.5014	8.3652	8.2330
40	9.4316	9.2663	9.1062	8.9511	8.8008	8.6551	8.5138	8.3768	8.2438
41	9.4490	9.2824	9.1211	8.9649	8.8136	8.6670	8.5249	8.3871	8.2534
42	9.4646	9.2969	9.1345	8.9774	8.8252	8.6778	8.5349	8.3963	8.2619
43	9.4788	9.3100	9.1467	8.9886	8.8356	8.6874	8.5438	8.4046	8.2696
44	9.4917	9.3219	9.1577	8.9988	8.8450	8.6960	8.5518	8.4120	8.2764
45	9.5033	9.3326	9.1676	9.0079	8.8534	8.7038	8.5589	8.4186	8.2825
46	9.5139	9.3423	9.1765	9.0161	8.8610	8.7108	8.5654	8.4245	8.2880
47	9.5235	9.3511	9.1846	9.0235	8.8678	8.7170	8.5711	8.4298	8.2928
48	9.5321	9.3591	9.1919	9.0302	8.8739	8.7227	8.5763	8.4345	8.2972
49	9.5400	9.3662	9.1984	9.0362	8.8794	8.7277	8.5809	8.4387	8.3010
50	9.5471	9.3727	9.2044	9.0417	8.8844	8.7322	8.5850	8.4425	8.3045
51	9.5535	9.3786	9.2097	9.0465	8.8888	8.7363	8.5887	8.4459	8.3076
52	9.5593	9.3839	9.2145	9.0509	8.8928	8.7399	8.5920	8.4489	8.3103
53	9.5646	9.3887	9.2189	9.0549	8.8964	8.7432	8.5950	8.4516	8.3128
54	9.5694	9.3930	9.2228	9.0585	8.8997	8.7461	8.5977	8.4541	8.3150
55	9.5737	9.3970	9.2264	9.0617	8.9026	8.7488	8.6001	8.4562	8.3170

SINGLE LIFE ANNUITY FACTORS

(For valuation dates occurring after April 30, 1999)

INTEREST RATE

AGE	5.0%	5.2%	5.4%	5.6%	5.8%	6.0%	6.2%	6.4%	6.6%
0	19.0618	18.3996	17.7781	17.1945	16.6452	16.1278	15.6397	15.1786	14.7424
1	19.1994	18.5346	17.9106	17.3241	16.7722	16.2522	15.7615	15.2978	14.8592
2	19.1736	18.5121	17.8911	17.3073	16.7576	16.2395	15.7505	15.2883	14.8511
3	19.1418	18.4840	17.8661	17.2852	16.7379	16.2220	15.7348	15.2745	14.8386
4	19.1062	18.4523	17.8378	17.2596	16.7152	16.2015	15.7165	15.2580	14.8238
5	19.0676	18.4175	17.8065	17.2316	16.6898	16.1787	15.6958	15.2392	14.8068
6	19.0262	18.3804	17.7731	17.2014	16.6626	16.1540	15.6734	15.2187	14.7882
7	18.9822	18.3408	17.7372	17.1689	16.6331	16.1273	15.6490	15.1966	14.7679
8	18.9358	18.2988	17.6993	17.1346	16.6019	16.0988	15.6231	15.1728	14.7462
9	18.8866	18.2540	17.6587	17.0977	16.5683	16.0680	15.5950	15.1470	14.7224
10	18.8342	18.2065	17.6154	17.0582	16.5321	16.0350	15.5647	15.1192	14.6968
11	18.7792	18.1563	17.5696	17.0162	16.4938	15.9997	15.5323	15.0894	14.6692
12	18.7212	18.1035	17.5213	16.9720	16.4531	15.9623	15.4979	15.0575	14.6398
13	18.6614	18.0488	17.4713	16.9261	16.4110	15.9237	15.4621	15.0245	14.6092
14	18.6006	17.9933	17.4206	16.8796	16.3683	15.8843	15.4260	14.9911	14.5783
15	18.5394	17.9375	17.3696	16.8330	16.3255	15.8450	15.3897	14.9578	14.5476
16	18.4784	17.8819	17.3187	16.7864	16.2829	15.8060	15.3539	14.9247	14.5171
17	18.4168	17.8258	17.2676	16.7398	16.2402	15.7668	15.3179	14.8919	14.4868
18	18.3546	17.7690	17.2159	16.6927	16.1971	15.7273	15.2818	14.8586	14.4564
19	18.2904	17.7108	17.1626	16.6439	16.1526	15.6867	15.2445	14.8244	14.4248
20	18.2238	17.6500	17.1070	16.5932	16.1062	15.6442	15.2055	14.7884	14.3920
21	18.1544	17.5865	17.0491	16.5402	16.0576	15.5995	15.1645	14.7508	14.3573
22	18.0824	17.5206	16.9889	16.4848	16.0069	15.5530	15.1216	14.7114	14.3209
23	18.0072	17.4519	16.9257	16.4270	15.9538	15.5042	15.0768	14.6700	14.2827
24	17.9286	17.3798	16.8596	16.3662	15.8978	15.4527	15.0292	14.6262	14.2423
25	17.8464	17.3042	16.7900	16.3021	15.8388	15.3982	14.9789	14.5797	14.1992
26	17.7602	17.2248	16.7170	16.2348	15.7766	15.3407	14.9258	14.5305	14.1536
27	17.6696	17.1413	16.6400	16.1636	15.7107	15.2797	14.8694	14.4781	14.1050
28	17.5752	17.0540	16.5593	16.0891	15.6416	15.2157	14.8098	14.4230	14.0536
29	17.4766	16.9631	16.4750	16.0109	15.5691	15.1485	14.7474	14.3648	13.9995
30	17.3742	16.8681	16.3870	15.9293	15.4934	15.0780	14.6818	14.3038	13.9427
31	17.2678	16.7694	16.2956	15.8443	15.4143	15.0043	14.6132	14.2398	13.8830
32	17.1572	16.6667	16.2000	15.7555	15.3317	14.9275	14.5415	14.1728	13.8205
33	17.0420	16.5598	16.1004	15.6627	15.2452	14.8467	14.4661	14.1023	13.7545
34	16.9224	16.4485	15.9967	15.5659	15.1548	14.7623	14.3873	14.0286	13.6855
35	16.7978	16.3321	15.8881	15.4645	15.0600	14.6737	14.3042	13.9508	13.6126
36	16.6684	16.2113	15.7752	15.3589	14.9612	14.5810	14.2174	13.8694	13.5361
37	16.5338	16.0854	15.6574	15.2486	14.8578	14.4840	14.1265	13.7839	13.4556
38	16.3938	15.9542	15.5346	15.1334	14.7497	14.3825	14.0308	13.6939	13.3711
39	16.2482	15.8179	15.4065	15.0130	14.6366	14.2760	13.9308	13.5997	13.2821
40	16.0968	15.6756	15.2728	14.8873	14.5181	14.1645	13.8256	13.5005	13.1886
41	15.9390	15.5271	15.1330	14.7557	14.3941	14.0475	13.7152	13.3962	13.0900
42	15.7750	15.3727	14.9872	14.6182	14.2643	13.9250	13.5992	13.2866	12.9862
43	15.6046	15.2119	14.8356	14.4748	14.1288	13.7967	13.4779	13.1716	12.8773
44	15.4280	15.0450	14.6778	14.3255	13.9874	13.6628	13.3510	13.0512	12.7630
45	15.2456	14.8723	14.5144	14.1707	13.8407	13.5237	13.2190	12.9259	12.6439
46	15.0572	14.6940	14.3452	14.0104	13.6886	13.3792	13.0818	12.7955	12.5197
47	14.8636	14.5104	14.1711	13.8450	13.5314	13.2298	12.9395	12.6602	12.3909
48	14.6644	14.3212	13.9913	13.6741	13.3690	13.0752	12.7923	12.5198	12.2573
49	14.4596	14.1263	13.8061	13.4979	13.2010	12.9152	12.6398	12.3744	12.1185
50	14.2488	13.9258	13.6150	13.3157	13.0274	12.7497	12.4819	12.2236	11.9744
51	14.0324	13.7196	13.4183	13.1282	12.8484	12.5787	12.3185	12.0673	11.8250
52	13.8108	13.5083	13.2167	12.9355	12.6643	12.4027	12.1502	11.9064	11.6708
53	13.5844	13.2919	13.0100	12.7380	12.4753	12.2218	11.9771	11.7405	11.5118
54	13.3532	13.0710	12.7985	12.5355	12.2817	12.0363	11.7992	11.5700	11.3483

SINGLE LIFE ANNUITY FACTORS

(For valuation dates occurring after April 30, 1999)

INTEREST RATE

AGE	5.0%	5.2%	5.4%	5.6%	5.8%	6.0%	6.2%	6.4%	6.6%
55	13.1174	12.8452	12.5822	12.3284	12.0831	11.8458	11.6165	11.3947	11.1800
56	12.8766	12.6144	12.3611	12.1162	11.8795	11.6505	11.4290	11.2145	11.0068
57	12.6312	12.3790	12.1354	11.8995	11.6714	11.4505	11.2366	11.0295	10.8289
58	12.3822	12.1398	11.9056	11.6786	11.4590	11.2463	11.0402	10.8405	10.6468
59	12.1300	11.8975	11.6726	11.4545	11.2433	11.0387	10.8403	10.6478	10.4612
60	11.8752	11.6523	11.4365	11.2273	11.0245	10.8278	10.6371	10.4520	10.2724
61	11.6172	11.4040	11.1972	10.9968	10.8022	10.6137	10.4305	10.2525	10.0798
62	11.3554	11.1517	10.9541	10.7621	10.5759	10.3952	10.2195	10.0487	9.8830
63	11.0900	10.8956	10.7067	10.5234	10.3453	10.1723	10.0042	9.8406	9.6817
64	10.8210	10.6358	10.4557	10.2809	10.1109	9.9457	9.7848	9.6284	9.4764
65	10.5490	10.3727	10.2015	10.0348	9.8728	9.7152	9.5616	9.4123	9.2670
66	10.2732	10.1060	9.9431	9.7846	9.6305	9.4803	9.3342	9.1919	9.0532
67	9.9932	9.8346	9.6802	9.5298	9.3834	9.2407	9.1018	8.9662	8.8342
68	9.7096	9.5594	9.4133	9.2709	9.1321	8.9967	8.8648	8.7361	8.6106
69	9.4230	9.2813	9.1431	9.0086	8.8771	8.7490	8.6240	8.5020	8.3830
70	9.1350	9.0013	8.8711	8.7439	8.6200	8.4988	8.3806	8.2652	8.1524
71	8.8466	8.7210	8.5983	8.4786	8.3616	8.2473	8.1358	8.0267	7.9202
72	8.5588	8.4408	8.3254	8.2127	8.1028	7.9952	7.8900	7.7872	7.6867
73	8.2720	8.1613	8.0531	7.9473	7.8440	7.7428	7.6440	7.5473	7.4526
74	7.9854	7.8817	7.7806	7.6814	7.5847	7.4898	7.3969	7.3061	7.2171
75	7.6980	7.6013	7.5069	7.4143	7.3236	7.2348	7.1479	7.0628	6.9795
76	7.4092	7.3192	7.2311	7.1448	7.0603	6.9775	6.8963	6.8167	6.7388
77	7.1192	7.0356	6.9537	6.8734	6.7948	6.7177	6.6421	6.5680	6.4952
78	6.8284	6.7510	6.6750	6.6007	6.5276	6.4560	6.3858	6.3169	6.2492
79	6.5384	6.4669	6.3969	6.3280	6.2603	6.1940	6.1289	6.0650	6.0023
80	6.2520	6.1860	6.1213	6.0577	5.9953	5.9340	5.8739	5.8147	5.7565
81	5.9706	5.9100	5.8504	5.7918	5.7343	5.6778	5.6223	5.5677	5.5139
82	5.6956	5.6400	5.5852	5.5314	5.4784	5.4265	5.3753	5.3250	5.2755
83	5.4272	5.3762	5.3259	5.2766	5.2279	5.1802	5.1331	5.0869	5.0412
84	5.1634	5.1167	5.0707	5.0255	4.9810	4.9372	4.8940	4.8516	4.8097
85	4.9026	4.8600	4.8181	4.7768	4.7362	4.6962	4.6568	4.6178	4.5795
86	4.6472	4.6085	4.5704	4.5327	4.4957	4.4592	4.4232	4.3877	4.3527
87	4.4004	4.3652	4.3306	4.2964	4.2626	4.2293	4.1966	4.1642	4.1324
88	4.1624	4.1306	4.0991	4.0679	4.0372	4.0070	3.9771	3.9477	3.9186
89	3.9330	3.9040	3.8756	3.8473	3.8195	3.7920	3.7648	3.7381	3.7117
90	3.7126	3.6863	3.6604	3.6348	3.6097	3.5847	3.5600	3.5358	3.5117
91	3.5042	3.4804	3.4570	3.4337	3.4109	3.3882	3.3660	3.3437	3.3220
92	3.3118	3.2902	3.2689	3.2479	3.2271	3.2065	3.1861	3.1661	3.1462
93	3.1348	3.1152	3.0957	3.0766	3.0576	3.0388	3.0203	3.0019	2.9838
94	2.9702	2.9523	2.9346	2.9171	2.8998	2.8827	2.8658	2.8491	2.8324
95	2.8144	2.7981	2.7820	2.7661	2.7502	2.7347	2.7192	2.7039	2.6888
96	2.6682	2.6533	2.6387	2.6241	2.6097	2.5955	2.5813	2.5673	2.5535
97	2.5330	2.5196	2.5061	2.4929	2.4797	2.4667	2.4537	2.4409	2.4283
98	2.4064	2.3940	2.3819	2.3696	2.3576	2.3457	2.3339	2.3222	2.3106
99	2.2830	2.2717	2.2606	2.2496	2.2386	2.2278	2.2169	2.2062	2.1958
100	2.1634	2.1531	2.1430	2.1329	2.1229	2.1130	2.1032	2.0936	2.0839
101	2.0456	2.0362	2.0270	2.0180	2.0090	2.0000	1.9911	1.9823	1.9736
102	1.9300	1.9217	1.9133	1.9052	1.8971	1.8890	1.8810	1.8731	1.8653
103	1.8156	1.8081	1.8007	1.7934	1.7862	1.7790	1.7718	1.7647	1.7577
104	1.6936	1.6871	1.6807	1.6743	1.6679	1.6615	1.6553	1.6491	1.6429
105	1.5746	1.5690	1.5633	1.5579	1.5522	1.5468	1.5415	1.5359	1.5306
106	1.4222	1.4177	1.4130	1.4084	1.4040	1.3993	1.3950	1.3905	1.3861
107	1.2384	1.2348	1.2313	1.2279	1.2243	1.2208	1.2174	1.2141	1.2106
108	0.9552	0.9529	0.9506	0.9484	0.9462	0.9440	0.9418	0.9395	0.9373
109	0.4762	0.4752	0.4744	0.4736	0.4726	0.4717	0.4708	0.4700	0.4691

SINGLE LIFE ANNUITY FACTORS

(For valuation dates occurring after April 30, 1999)

INTEREST RATE

AGE	6.8%	7.0%	7.2%	7.4%	7.6%	7.8%	8.0%	8.2%	8.4%
0	14.3296	13.9381	13.5665	13.2135	12.8778	12.5581	12.2534	11.9627	11.6851
1	14.4438	14.0500	13.6760	13.3207	12.9828	12.6608	12.3540	12.0612	11.7817
2	14.4369	14.0440	13.6710	13.3165	12.9792	12.6580	12.3516	12.0594	11.7802
3	14.4257	14.0341	13.6622	13.3086	12.9721	12.6517	12.3460	12.0543	11.7757
4	14.4124	14.0220	13.6511	13.2986	12.9630	12.6433	12.3385	12.0474	11.7694
5	14.3969	14.0079	13.6383	13.2869	12.9524	12.6336	12.3295	12.0391	11.7618
6	14.3799	13.9924	13.6242	13.2739	12.9404	12.6226	12.3194	12.0298	11.7531
7	14.3613	13.9754	13.6085	13.2595	12.9271	12.6103	12.3080	12.0193	11.7433
8	14.3413	13.9570	13.5917	13.2439	12.9126	12.5969	12.2956	12.0078	11.7326
9	14.3196	13.9369	13.5731	13.2268	12.8967	12.5822	12.2819	11.9950	11.7207
10	14.2959	13.9150	13.5528	13.2078	12.8792	12.5658	12.2666	11.9807	11.7073
11	14.2704	13.8914	13.5308	13.1874	12.8603	12.5481	12.2500	11.9651	11.6927
12	14.2432	13.8661	13.5072	13.1655	12.8397	12.5288	12.2320	11.9483	11.6768
13	14.2149	13.8397	13.4828	13.1427	12.8184	12.5088	12.2133	11.9307	11.6602
14	14.1862	13.8131	13.4581	13.1196	12.7968	12.4888	12.1945	11.9131	11.6437
15	14.1576	13.7867	13.4335	13.0969	12.7757	12.4690	12.1759	11.8956	11.6274
16	14.1296	13.7609	13.4094	13.0746	12.7549	12.4497	12.1580	11.8789	11.6117
17	14.1018	13.7350	13.3857	13.0526	12.7345	12.4308	12.1404	11.8624	11.5964
18	14.0737	13.7091	13.3618	13.0305	12.7141	12.4119	12.1229	11.8462	11.5813
19	14.0447	13.6826	13.3372	13.0078	12.6932	12.3924	12.1049	11.8295	11.5658
20	14.0144	13.6546	13.3114	12.9839	12.6711	12.3721	12.0859	11.8120	11.5495
21	13.9824	13.6250	13.2842	12.9588	12.6478	12.3504	12.0659	11.7933	11.5321
22	13.9490	13.5941	13.2557	12.9323	12.6233	12.3277	12.0448	11.7738	11.5139
23	13.9137	13.5616	13.2254	12.9043	12.5974	12.3036	12.0224	11.7529	11.4945
24	13.8762	13.5269	13.1933	12.8746	12.5697	12.2780	11.9985	11.7306	11.4738
25	13.8363	13.4900	13.1590	12.8427	12.5401	12.2504	11.9728	11.7067	11.4514
26	13.7941	13.4507	13.1225	12.8088	12.5084	12.2209	11.9453	11.6810	11.4274
27	13.7488	13.4086	13.0833	12.7723	12.4743	12.1891	11.9155	11.6532	11.4013
28	13.7010	13.3641	13.0419	12.7335	12.4383	12.1553	11.8839	11.6235	11.3735
29	13.6507	13.3171	12.9981	12.6926	12.3999	12.1194	11.8503	11.5920	11.3438
30	13.5976	13.2676	12.9517	12.6492	12.3593	12.0813	11.8146	11.5584	11.3124
31	13.5419	13.2156	12.9031	12.6037	12.3166	12.0413	11.7769	11.5231	11.2792
32	13.4834	13.1607	12.8517	12.5555	12.2714	11.9988	11.7371	11.4856	11.2439
33	13.4218	13.1030	12.7975	12.5046	12.2237	11.9540	11.6949	11.4459	11.2064
34	13.3569	13.0421	12.7404	12.4511	12.1733	11.9065	11.6503	11.4038	11.1667
35	13.2885	12.9779	12.6800	12.3942	12.1197	11.8562	11.6026	11.3589	11.1244
36	13.2166	12.9103	12.6164	12.3343	12.0633	11.8028	11.5524	11.3115	11.0795
37	13.1410	12.8391	12.5493	12.2711	12.0037	11.7465	11.4993	11.2611	11.0319
38	13.0613	12.7640	12.4785	12.2042	11.9404	11.6868	11.4426	11.2076	10.9812
39	12.9775	12.6849	12.4038	12.1335	11.8736	11.6235	11.3828	11.1509	10.9274
40	12.8890	12.6013	12.3247	12.0587	11.8028	11.5564	11.3191	11.0904	10.8700
41	12.7957	12.5130	12.2411	11.9795	11.7276	11.4850	11.2514	11.0261	10.8088
42	12.6975	12.4199	12.1528	11.8957	11.6480	11.4095	11.1795	10.9577	10.7437
43	12.5941	12.3219	12.0596	11.8072	11.5638	11.3294	11.1033	10.8851	10.6745
44	12.4856	12.2187	11.9617	11.7139	11.4751	11.2449	11.0226	10.8082	10.6012
45	12.3725	12.1110	11.8590	11.6162	11.3821	11.1562	10.9380	10.7274	10.5239
46	12.2543	11.9984	11.7518	11.5141	11.2845	11.0631	10.8491	10.6424	10.4427
47	12.1316	11.8814	11.6403	11.4076	11.1829	10.9659	10.7563	10.5537	10.3577
48	12.0040	11.7597	11.5240	11.2965	11.0767	10.8644	10.6591	10.4606	10.2687
49	11.8715	11.6331	11.4031	11.1808	10.9661	10.7585	10.5576	10.3634	10.1755
50	11.7338	11.5014	11.2771	11.0601	10.8505	10.6477	10.4515	10.2616	10.0777
51	11.5909	11.3646	11.1460	10.9346	10.7300	10.5322	10.3406	10.1552	9.9756
52	11.4432	11.2231	11.0103	10.8045	10.6053	10.4123	10.2255	10.0446	9.8693
53	11.2909	11.0770	10.8701	10.6699	10.4759	10.2881	10.1061	9.9298	9.7587
54	11.1338	10.9263	10.7254	10.5308	10.3422	10.1595	9.9825	9.8107	9.6441

SINGLE LIFE ANNUITY FACTORS

(For valuation dates occurring after April 30, 1999)

INTEREST RATE

AGE	6.8%	7.0%	7.2%	7.4%	7.6%	7.8%	8.0%	8.2%	8.4%
55	10.9722	10.7709	10.5760	10.3870	10.2039	10.0265	9.8543	9.6873	9.5251
56	10.8056	10.6107	10.4218	10.2388	10.0612	9.8888	9.7216	9.5594	9.4018
57	10.6344	10.4459	10.2631	10.0858	9.9137	9.7467	9.5845	9.4271	9.2741
58	10.4591	10.2770	10.1003	9.9286	9.7622	9.6005	9.4434	9.2907	9.1424
59	10.2801	10.1044	9.9338	9.7681	9.6071	9.4508	9.2988	9.1510	9.0073
60	10.0979	9.9286	9.7640	9.6042	9.4487	9.2977	9.1508	9.0078	8.8688
61	9.9121	9.7490	9.5906	9.4365	9.2866	9.1409	8.9991	8.8611	8.7268
62	9.7218	9.5651	9.4126	9.2645	9.1201	8.9797	8.8431	8.7100	8.5804
63	9.5271	9.3767	9.2303	9.0878	8.9492	8.8141	8.6826	8.5544	8.4295
64	9.3282	9.1841	9.0439	8.9072	8.7741	8.6444	8.5179	8.3946	8.2745
65	9.1254	8.9876	8.8532	8.7223	8.5946	8.4703	8.3490	8.2307	8.1154
66	8.9181	8.7863	8.6579	8.5327	8.4107	8.2915	8.1754	8.0621	7.9514
67	8.7054	8.5799	8.4574	8.3380	8.2213	8.1076	7.9965	7.8881	7.7821
68	8.4881	8.3687	8.2521	8.1382	8.0271	7.9186	7.8126	7.7091	7.6080
69	8.2668	8.1533	8.0425	7.9343	7.8286	7.7253	7.6243	7.5256	7.4292
70	8.0424	7.9349	7.8297	7.7270	7.6266	7.5285	7.4325	7.3387	7.2468
71	7.8160	7.7143	7.6147	7.5174	7.4222	7.3292	7.2381	7.1490	7.0618
72	7.5884	7.4923	7.3982	7.3062	7.2162	7.1281	7.0418	6.9573	6.8746
73	7.3600	7.2694	7.1807	7.0938	7.0088	6.9255	6.8439	6.7640	6.6857
74	7.1301	7.0449	6.9612	6.8795	6.7993	6.7208	6.6439	6.5684	6.4945
75	6.8978	6.8177	6.7393	6.6624	6.5871	6.5132	6.4408	6.3696	6.3000
76	6.6624	6.5874	6.5139	6.4419	6.3712	6.3018	6.2338	6.1671	6.1015
77	6.4238	6.3539	6.2851	6.2178	6.1517	6.0868	6.0231	5.9606	5.8992
78	6.1828	6.1176	6.0536	5.9908	5.9291	5.8686	5.8090	5.7506	5.6932
79	5.9406	5.8800	5.8206	5.7622	5.7047	5.6483	5.5930	5.5385	5.4850
80	5.6994	5.6433	5.5882	5.5341	5.4807	5.4283	5.3769	5.3262	5.2764
81	5.4612	5.4093	5.3582	5.3080	5.2587	5.2101	5.1624	5.1154	5.0692
82	5.2268	5.1789	5.1317	5.0854	5.0397	4.9947	4.9506	4.9071	4.8643
83	4.9965	4.9523	4.9089	4.8661	4.8239	4.7826	4.7418	4.7015	4.6619
84	4.7685	4.7280	4.6881	4.6488	4.6100	4.5718	4.5341	4.4971	4.4606
85	4.5419	4.5047	4.4681	4.4319	4.3963	4.3613	4.3268	4.2927	4.2590
86	4.3182	4.2843	4.2508	4.2177	4.1851	4.1531	4.1214	4.0901	4.0593
87	4.1009	4.0699	4.0393	4.0091	3.9793	3.9500	3.9210	3.8923	3.8642
88	3.8900	3.8617	3.8339	3.8064	3.7791	3.7523	3.7258	3.6996	3.6738
89	3.6856	3.6599	3.6344	3.6095	3.5846	3.5601	3.5360	3.5121	3.4886
90	3.4881	3.4646	3.4415	3.4186	3.3961	3.3738	3.3518	3.3300	3.3085
91	3.3004	3.2791	3.2581	3.2373	3.2167	3.1964	3.1764	3.1565	3.1369
92	3.1265	3.1071	3.0879	3.0689	3.0503	3.0317	3.0134	2.9952	2.9773
93	2.9659	2.9481	2.9307	2.9134	2.8962	2.8792	2.8625	2.8459	2.8294
94	2.8162	2.7999	2.7839	2.7680	2.7524	2.7368	2.7215	2.7062	2.6912
95	2.6738	2.6590	2.6443	2.6299	2.6155	2.6013	2.5873	2.5733	2.5595
96	2.5399	2.5263	2.5129	2.4996	2.4864	2.4735	2.4606	2.4478	2.4352
97	2.4157	2.4034	2.3911	2.3789	2.3668	2.3549	2.3431	2.3313	2.3198
98	2.2991	2.2879	2.2765	2.2654	2.2543	2.2433	2.2325	2.2218	2.2111
99	2.1853	2.1749	2.1646	2.1545	2.1443	2.1342	2.1244	2.1145	2.1048
100	2.0744	2.0649	2.0556	2.0462	2.0370	2.0278	2.0189	2.0099	2.0010
101	1.9650	1.9564	1.9479	1.9395	1.9311	1.9227	1.9145	1.9063	1.8982
102	1.8575	1.8497	1.8419	1.8343	1.8268	1.8194	1.8119	1.8045	1.7971
103	1.7507	1.7439	1.7369	1.7301	1.7233	1.7165	1.7099	1.7032	1.6967
104	1.6366	1.6306	1.6244	1.6184	1.6125	1.6065	1.6006	1.5948	1.5889
105	1.5253	1.5200	1.5147	1.5095	1.5042	1.4991	1.4939	1.4888	1.4837
106	1.3816	1.3773	1.3729	1.3685	1.3642	1.3600	1.3558	1.3515	1.3473
107	1.2072	1.2039	1.2006	1.1972	1.1938	1.1905	1.1873	1.1840	1.1807
108	0.9351	0.9330	0.9308	0.9286	0.9266	0.9244	0.9223	0.9201	0.9181
109	0.4682	0.4673	0.4664	0.4655	0.4647	0.4638	0.4630	0.4621	0.4613

SINGLE LIFE ANNUITY FACTORS

(For valuation dates occurring after April 30, 1999)

INTEREST RATE

AGE	8.6%	8.8%	9.0%	9.2%	9.4%	9.6%	9.8%	10.0%	10.2%
0	11.4198	11.1659	10.9229	10.6900	10.4667	10.2523	10.0463	9.8484	9.6580
1	11.5143	11.2586	11.0138	10.7790	10.5539	10.3379	10.1304	9.9309	9.7390
2	11.5133	11.2580	11.0133	10.7789	10.5541	10.3382	10.1309	9.9316	9.7398
3	11.5093	11.2543	11.0101	10.7761	10.5515	10.3359	10.1289	9.9298	9.7382
4	11.5036	11.2491	11.0053	10.7717	10.5476	10.3323	10.1255	9.9267	9.7354
5	11.4965	11.2426	10.9993	10.7661	10.5423	10.3275	10.1210	9.9225	9.7315
6	11.4885	11.2351	10.9924	10.7597	10.5363	10.3219	10.1158	9.9176	9.7269
7	11.4794	11.2267	10.9844	10.7523	10.5295	10.3154	10.1097	9.9119	9.7215
8	11.4694	11.2174	10.9758	10.7441	10.5217	10.3082	10.1030	9.9055	9.7155
9	11.4581	11.2068	10.9659	10.7348	10.5130	10.3000	10.0951	9.8981	9.7085
10	11.4457	11.1950	10.9548	10.7243	10.5032	10.2906	10.0863	9.8897	9.7005
11	11.4319	11.1820	10.9426	10.7128	10.4922	10.2802	10.0764	9.8804	9.6916
12	11.4170	11.1681	10.9293	10.7002	10.4803	10.2689	10.0656	9.8701	9.6818
13	11.4014	11.1533	10.9153	10.6871	10.4678	10.2570	10.0544	9.8593	9.6715
14	11.3857	11.1385	10.9014	10.6738	10.4552	10.2452	10.0431	9.8486	9.6613
15	11.3705	11.1242	10.8879	10.6611	10.4432	10.2338	10.0322	9.8383	9.6515
16	11.3558	11.1103	10.8749	10.6489	10.4317	10.2229	10.0219	9.8286	9.6424
17	11.3415	11.0970	10.8624	10.6372	10.4206	10.2125	10.0122	9.8194	9.6336
18	11.3274	11.0839	10.8502	10.6258	10.4100	10.2025	10.0029	9.8106	9.6253
19	11.3130	11.0705	10.8377	10.6140	10.3990	10.1923	9.9933	9.8016	9.6169
20	11.2978	11.0564	10.8244	10.6016	10.3876	10.1815	9.9832	9.7921	9.6079
21	11.2816	11.0412	10.8104	10.5886	10.3752	10.1700	9.9723	9.7820	9.5984
22	11.2647	11.0255	10.7957	10.5748	10.3623	10.1579	9.9610	9.7714	9.5885
23	11.2466	11.0086	10.7799	10.5601	10.3486	10.1450	9.9490	9.7600	9.5778
24	11.2272	10.9906	10.7630	10.5442	10.3337	10.1311	9.9359	9.7478	9.5663
25	11.2064	10.9709	10.7447	10.5271	10.3177	10.1159	9.9216	9.7344	9.5537
26	11.1838	10.9499	10.7249	10.5085	10.3002	10.0996	9.9062	9.7198	9.5400
27	11.1594	10.9269	10.7033	10.4883	10.2812	10.0816	9.8893	9.7038	9.5249
28	11.1333	10.9024	10.6803	10.4665	10.2606	10.0623	9.8711	9.6867	9.5086
29	11.1055	10.8762	10.6557	10.4433	10.2387	10.0417	9.8515	9.6682	9.4912
30	11.0758	10.8484	10.6294	10.4186	10.2154	10.0196	9.8307	9.6485	9.4725
31	11.0445	10.8189	10.6017	10.3924	10.1906	9.9961	9.8086	9.6275	9.4526
32	11.0114	10.7876	10.5721	10.3645	10.1644	9.9713	9.7850	9.6052	9.4315
33	10.9760	10.7542	10.5406	10.3347	10.1362	9.9446	9.7597	9.5812	9.4087
34	10.9386	10.7189	10.5071	10.3030	10.1062	9.9161	9.7328	9.5556	9.3844
35	10.8985	10.6810	10.4713	10.2691	10.0740	9.8857	9.7039	9.5282	9.3583
36	10.8560	10.6408	10.4332	10.2330	10.0398	9.8532	9.6730	9.4988	9.3304
37	10.8110	10.5981	10.3927	10.1946	10.0033	9.8185	9.6400	9.4675	9.3006
38	10.7629	10.5525	10.3494	10.1535	9.9643	9.7814	9.6047	9.4338	9.2684
39	10.7119	10.5040	10.3033	10.1096	9.9224	9.7417	9.5668	9.3977	9.2341
40	10.6573	10.4522	10.2540	10.0627	9.8778	9.6991	9.5262	9.3589	9.1971
41	10.5991	10.3967	10.2012	10.0124	9.8298	9.6532	9.4825	9.3172	9.1572
42	10.5371	10.3376	10.1449	9.9586	9.7784	9.6042	9.4356	9.2723	9.1142
43	10.4712	10.2747	10.0848	9.9012	9.7236	9.5517	9.3853	9.2242	9.0681
44	10.4010	10.2077	10.0208	9.8400	9.6651	9.4957	9.3317	9.1728	9.0188
45	10.3273	10.1373	9.9533	9.7754	9.6032	9.4365	9.2749	9.1183	8.9665
46	10.2497	10.0628	9.8821	9.7072	9.5378	9.3736	9.2147	9.0605	8.9110
47	10.1683	9.9849	9.8074	9.6355	9.4690	9.3077	9.1513	8.9996	8.8525
48	10.0829	9.9031	9.7290	9.5602	9.3967	9.2382	9.0845	8.9354	8.7907
49	9.9935	9.8173	9.6466	9.4811	9.3207	9.1651	9.0142	8.8678	8.7256
50	9.8998	9.7272	9.5600	9.3978	9.2406	9.0881	8.9400	8.7963	8.6568
51	9.8015	9.6327	9.4692	9.3104	9.1565	9.0071	8.8619	8.7211	8.5842
52	9.6992	9.5344	9.3744	9.2192	9.0686	8.9224	8.7803	8.6423	8.5081
53	9.5929	9.4319	9.2758	9.1242	8.9770	8.8340	8.6950	8.5600	8.4286
54	9.4824	9.3256	9.1732	9.0252	8.8815	8.7419	8.6060	8.4740	8.3456

SINGLE LIFE ANNUITY FACTORS

(For valuation dates occurring after April 30, 1999)

INTEREST RATE

AGE	8.6%	8.8%	9.0%	9.2%	9.4%	9.6%	9.8%	10.0%	10.2%
55	9.3678	9.2150	9.0664	8.9223	8.7820	8.6457	8.5132	8.3843	8.2588
56	9.2487	9.1001	8.9556	8.8151	8.6785	8.5456	8.4164	8.2907	8.1682
57	9.1253	8.9809	8.8404	8.7038	8.5709	8.4416	8.3156	8.1931	8.0737
58	8.9981	8.8578	8.7214	8.5887	8.4595	8.3338	8.2112	8.0920	7.9758
59	8.8674	8.7315	8.5991	8.4703	8.3449	8.2227	8.1037	7.9877	7.8747
60	8.7335	8.6018	8.4736	8.3487	8.2270	8.1085	7.9930	7.8804	7.7706
61	8.5959	8.4685	8.3444	8.2236	8.1057	7.9908	7.8789	7.7696	7.6630
62	8.4541	8.3310	8.2111	8.0942	7.9803	7.8692	7.7607	7.6549	7.5517
63	8.3078	8.1892	8.0734	7.9607	7.8505	7.7431	7.6383	7.5359	7.4360
64	8.1573	8.0431	7.9317	7.8228	7.7167	7.6130	7.5118	7.4130	7.3165
65	8.0027	7.8928	7.7856	7.6809	7.5786	7.4789	7.3812	7.2860	7.1928
66	7.8434	7.7380	7.6350	7.5343	7.4361	7.3400	7.2462	7.1544	7.0647
67	7.6787	7.5777	7.4790	7.3825	7.2882	7.1960	7.1058	7.0177	6.9315
68	7.5091	7.4125	7.3180	7.2257	7.1353	7.0470	6.9605	6.8760	6.7932
69	7.3349	7.2426	7.1524	7.0642	6.9779	6.8933	6.8106	6.7297	6.6504
70	7.1570	7.0692	6.9832	6.8990	6.8166	6.7359	6.6569	6.5796	6.5038
71	6.9764	6.8928	6.8110	6.7309	6.6524	6.5755	6.5002	6.4264	6.3541
72	6.7936	6.7143	6.6366	6.5604	6.4857	6.4127	6.3410	6.2707	6.2018
73	6.6091	6.5339	6.4602	6.3879	6.3171	6.2477	6.1796	6.1128	6.0474
74	6.4220	6.3509	6.2812	6.2128	6.1457	6.0800	6.0154	5.9521	5.8899
75	6.2316	6.1645	6.0988	6.0342	5.9709	5.9086	5.8477	5.7877	5.7288
76	6.0373	5.9742	5.9122	5.8514	5.7917	5.7330	5.6755	5.6189	5.5633
77	5.8388	5.7797	5.7216	5.6643	5.6083	5.5531	5.4989	5.4457	5.3933
78	5.6369	5.5814	5.5270	5.4734	5.4209	5.3691	5.3183	5.2683	5.2191
79	5.4323	5.3807	5.3298	5.2798	5.2305	5.1822	5.1346	5.0878	5.0418
80	5.2274	5.1792	5.1319	5.0852	5.0394	4.9942	4.9498	4.9061	4.8630
81	5.0236	4.9789	4.9348	4.8914	4.8487	4.8067	4.7653	4.7246	4.6844
82	4.8221	4.7806	4.7397	4.6993	4.6598	4.6207	4.5822	4.5443	4.5070
83	4.6229	4.5844	4.5466	4.5092	4.4726	4.4364	4.4006	4.3654	4.3308
84	4.4245	4.3891	4.3541	4.3197	4.2856	4.2522	4.2192	4.1866	4.1545
85	4.2259	4.1933	4.1611	4.1293	4.0981	4.0672	4.0366	4.0066	3.9770
86	4.0290	3.9989	3.9693	3.9401	3.9114	3.8829	3.8549	3.8272	3.7999
87	3.8363	3.8088	3.7817	3.7549	3.7284	3.7023	3.6765	3.6511	3.6260
88	3.6484	3.6232	3.5983	3.5738	3.5496	3.5256	3.5020	3.4787	3.4556
89	3.4652	3.4423	3.4196	3.3971	3.3749	3.3530	3.3313	3.3100	3.2888
90	3.2872	3.2662	3.2454	3.2250	3.2047	3.1847	3.1649	3.1453	3.1260
91	3.1174	3.0983	3.0793	3.0607	3.0420	3.0238	3.0056	2.9877	2.9700
92	2.9595	2.9420	2.9247	2.9075	2.8905	2.8738	2.8571	2.8407	2.8245
93	2.8133	2.7972	2.7812	2.7655	2.7500	2.7346	2.7194	2.7043	2.6893
94	2.6764	2.6616	2.6470	2.6326	2.6183	2.6042	2.5902	2.5763	2.5626
95	2.5458	2.5324	2.5190	2.5058	2.4927	2.4797	2.4667	2.4540	2.4415
96	2.4227	2.4102	2.3980	2.3859	2.3738	2.3619	2.3500	2.3383	2.3268
97	2.3083	2.2969	2.2856	2.2745	2.2633	2.2524	2.2415	2.2307	2.2200
98	2.2006	2.1901	2.1798	2.1695	2.1593	2.1492	2.1392	2.1292	2.1194
99	2.0951	2.0855	2.0760	2.0665	2.0572	2.0479	2.0388	2.0296	2.0206
100	1.9921	1.9833	1.9747	1.9660	1.9574	1.9490	1.9406	1.9322	1.9239
101	1.8902	1.8822	1.8743	1.8664	1.8586	1.8509	1.8433	1.8357	1.8281
102	1.7899	1.7826	1.7754	1.7684	1.7613	1.7543	1.7473	1.7404	1.7335
103	1.6901	1.6836	1.6771	1.6708	1.6644	1.6581	1.6518	1.6456	1.6394
104	1.5831	1.5774	1.5717	1.5660	1.5603	1.5548	1.5492	1.5437	1.5382
105	1.4787	1.4736	1.4687	1.4637	1.4588	1.4540	1.4491	1.4443	1.4394
106	1.3430	1.3389	1.3348	1.3307	1.3266	1.3225	1.3185	1.3145	1.3105
107	1.1776	1.1743	1.1711	1.1679	1.1648	1.1616	1.1585	1.1553	1.1523
108	0.9159	0.9139	0.9118	0.9098	0.9077	0.9056	0.9036	0.9016	0.8995
109	0.4603	0.4595	0.4587	0.4578	0.4570	0.4563	0.4554	0.4545	0.4537

Appendix D

FORMS/DOCUMENTS

There are a number of useful IRS forms for IRAs. The 5305 set of IRS forms contain IRS approved language for various types of IRAs. These include:

Form	
5305	Individual Retirement Trust Account
5305-A	Individual Retirement Custodial Account
5305-R	Roth Individual Retirement Trust Account
5305-RA	Roth Individual Retirement Custodial Account
5305-RB	Roth Individual Retirement Annuity Endorsement
5305-E	Education Individual Retirement Trust Account
5305-EA	Education Individual Retirement Custodial Account
5305-SEP	Simplified Employee Pension-Individual Retirement Accounts Contribution Agreement
5305A-SEP	Salary Reduction and Other Simplified Employee Pension-Individual Retirement Accounts Contribution Agreement
5305-S	SIMPLE Individual Retirement Trust Account
5305-SA	SIMPLE Individual Retirement Custodial Account
5305-SIMPLE	Savings Incentive Match Plan for Employees of Small Employers (SIMPLE)

Form 5329 (Additional Taxes Attributable to IRAs, Other Qualified Retirement Plans, Annuities, Modified Endowment Contracts, and MSAs) is used to calculate and report various additional taxes on IRAs, including the tax on premature or early distributions, the tax on distributions from an Education IRA which are not used for educational purposes, the tax on excess contributions, and the tax on excess accumulations (i.e., a required minimum distribution which is not made).

Form 8606 (Nondeductible IRAs) is used to report nondeductible contributions to an IRA, calculate the basis in an IRA, and determine the taxable distribution from an IRA.

Form **5305**
(Rev. January 1998)
Department of the Treasury
Internal Revenue Service

Individual Retirement Trust Account

(Under section 408(a) of the Internal Revenue Code)

DO NOT File With the Internal Revenue Service

Name of grantor	Date of birth of grantor	**Identifying number** (see instructions)
Address of grantor		Check if Amendment . ▶ ☐
Name of trustee	Address or principal place of business of trustee	

The grantor whose name appears above is establishing an individual retirement account under section 408(a) to provide for his or her retirement and for the support of his or her beneficiaries after death.

The trustee named above has given the grantor the disclosure statement required under Regulations section 1.408-6.

The grantor has assigned the trust ..... dollars ($ .....) in cash.

The grantor and the trustee make the following agreement:

Article I

The trustee may accept additional cash contributions on behalf of the grantor for a tax year of the grantor. The total cash contributions are limited to $2,000 for the tax year unless the contribution is a rollover contribution described in section 402(c), 403(a)(4), 403(b)(8), 408(d)(3), or an employer contribution to a simplified employee pension plan as described in section 408(k).

Article II

The grantor's interest in the balance in the trust account is nonforfeitable.

Article III

1. No part of the trust funds may be invested in life insurance contracts, nor may the assets of the trust account be commingled with other property except in a common trust fund or common investment fund (within the meaning of section 408(a)(5)).

2. No part of the trust funds may be invested in collectibles (within the meaning of section 408(m)) except as otherwise permitted by section 408(m)(3), which provides an exception for certain gold, silver, and platinum coins, coins issued under the laws of any state, and certain bullion.

Article IV

1. Notwithstanding any provision of this agreement to the contrary, the distribution of the grantor's interest in the trust account shall be made in accordance with the following requirements and shall otherwise comply with section 408(a)(6) and Proposed Regulations section 1.408-8, including the incidental death benefit provisions of Proposed Regulations section 1.401(a)(9)-2, the provisions of which are herein incorporated by reference.

2. Unless otherwise elected by the time distributions are required to begin to the grantor under paragraph 3, or to the surviving spouse under paragraph 4, other than in the case of a life annuity, life expectancies shall be recalculated annually. Such election shall be irrevocable as to the grantor and the surviving spouse and shall apply to all subsequent years. The life expectancy of a nonspouse beneficiary may not be recalculated

3. The grantor's entire interest in the trust account must be, or begin to be, distributed by the grantor's required beginning date, April 1 following the calendar year end in which the grantor reaches age 70½. By that date, the grantor may elect, in a manner acceptable to the trustee, to have the balance in the trust account distributed in:

(a) A single sum payment.

(b) An annuity contract that provides equal or substantially equal monthly, quarterly, or annual payments over the life of the grantor.

(c) An annuity contract that provides equal or substantially equal monthly, quarterly, or annual payments over the joint and last survivor lives of the grantor and his or her designated beneficiary.

(d) Equal or substantially equal annual payments over a specified period that may not be longer than the grantor's life expectancy.

(e) Equal or substantially equal annual payments over a specified period that may not be longer than the joint life and last survivor expectancy of the grantor and his or her designated beneficiary.

4. If the grantor dies before his or her entire interest is distributed to him or her, the entire remaining interest will be distributed as follows:

(a) If the grantor dies on or after distribution of his or her interest has begun, distribution must continue to be made in accordance with paragraph 3.

(b) If the grantor dies before distribution of his or her interest has begun, the entire remaining interest will, at the election of the grantor or, if the grantor has not so elected, at the election of the beneficiary or beneficiaries, either

(i) Be distributed by the December 31 of the year containing the fifth anniversary of the grantor's death, or

(ii) Be distributed in equal or substantially equal payments over the life or life expectancy of the designated beneficiary or beneficiaries starting by December 31 of the year following the year of the grantor's death. If, however, the beneficiary is the grantor's surviving spouse, then this distribution is not required to begin before December 31 of the year in which the grantor would have reached age 70½.

(c) Except where distribution in the form of an annuity meeting the requirements of section 408(b)(3) and its related regulations has irrevocably commenced, distributions are treated as having begun on the grantor's required beginning date, even though payments may actually have been made before that date.

(d) If the grantor dies before his or her entire interest has been distributed and if the beneficiary is other than the surviving spouse, no additional cash contributions or rollover contributions may be accepted in the account.

5. In the case of a distribution over life expectancy in equal or substantially equal annual payments, to determine the minimum annual payment for each year, divide the grantor's entire interest in the trust as of the close of business on December 31 of the preceding year by the life expectancy of the grantor (or the joint life and last survivor expectancy of the grantor and the grantor's designated beneficiary, or the life expectancy of the designated beneficiary, whichever applies). In the case of distributions under paragraph 3, determine the initial life expectancy (or joint life and last survivor expectancy) using the attained ages of the grantor and designated beneficiary as of their birthdays in the year the grantor reaches age 70½. In the case of a distribution in accordance with paragraph 4(b)(ii), determine life expectancy using the attained age of the designated beneficiary as of the beneficiary's birthday in the year distributions are required to commence.

6. The owner of two or more individual retirement accounts may use the "alternative method" described in Notice 88-38, 1988-1 C.B. 524, to satisfy the minimum distribution requirements described above. This method permits an individual to satisfy these requirements by taking from one individual retirement account the amount required to satisfy the requirement for another.

Article V

1. The grantor agrees to provide the trustee with information necessary for the trustee to prepare any reports required under section 408(i) and Regulations section 1.408-5 and 1.408-6.

2. The trustee agrees to submit reports to the Internal Revenue Service and the grantor as prescribed by the Internal Revenue Service.

Article VI

Notwithstanding any other articles which may be added or incorporated, the provisions of Articles I through III and this sentence will be controlling. Any additional articles that are not consistent with section 408(a) and related regulations will be invalid.

Article VII

This agreement will be amended from time to time to comply with the provisions of the Code and related regulations. Other amendments may be made with the consent of the persons whose signatures appear below.

Note: *The following space (Article VIII) may be used for any other provisions you want to add. If you do not want to add any other provisions, draw a line through this space. If you do add provisions, they must comply with applicable requirements of state law and the Internal Revenue Code*

Article VIII

Grantor's signature ..... Date .....

Trustee's signature ..... Date .....

Witness' signature .....

(Use only if signature of the grantor or the trustee is required to be witnessed.)

General Instructions

Section references are to the Internal Revenue Code unless otherwise noted.

Purpose of Form

Note: *Users of the October 1992 revision of Form 5305 are not required to use the January 1998 revision of the form.*

Form 5305 is a model trust account agreement that meets the requirements of section 408(a) and has been automatically approved by the IRS. An individual retirement account (IRA) is established after the form is fully executed by both the individual (grantor) and the trustee and must be completed no later than the due date of the individual's income tax return for the tax year (without regard to extensions). This account must be created in the United States for the exclusive benefit of the grantor or his or her beneficiaries.

Individuals may rely on regulations for the Tax Reform Act of 1986 to the extent specified in those regulations.

Do not file Form 5305 with the IRS. Instead, keep it for your records.

For more information on IRAs, including the required disclosures the trustee must give the grantor, see **Pub. 590,** Individual Retirement Arrangements (IRAs).

Definitions

Trustee. The trustee must be a bank or savings and loan association, as defined in section 408(n), or any person who has the approval of the IRS to act as trustee.

Grantor. The grantor is the person who establishes the trust account.

Identifying Number

The grantor's social security number will serve as the identifying number of his or her IRA. An employer identification number (EIN) is required only for an IRA for which a return is filed to report unrelated business taxable income. An EIN is required for a common fund created for IRAs.

IRA for Nonworking Spouse

Form 5305 may be used to establish the IRA trust for a nonworking spouse.

Contributions to an IRA trust account for a nonworking spouse must be made to a separate IRA trust account established by the nonworking spouse.

Specific Instructions

Article IV. Distributions made under this article may be made in a single sum, periodic payment, or a combination of both. The distribution option should be reviewed in the year the grantor reaches age 70½ to ensure that the requirements of section 408(a)(6) have been met.

Article VIII. Article VIII and any that follow it may incorporate additional provisions that are agreed to by the grantor and trustee to complete the agreement. They may include, for example, definitions, investment powers, voting rights, exculpatory provisions, amendment and termination, removal of the trustee, trustee's fees, state law requirements, beginning date of distributions, accepting only cash, treatment of excess contributions, prohibited transactions with the grantor, etc. Use additional pages if necessary and attach them to this form.

Note: *Form 5305 may be reproduced and reduced in size.*

Form **5305-A**
(Rev January 1998)
Department of the Treasury
Internal Revenue Service

Individual Retirement Custodial Account

(Under section 408(a) of the Internal Revenue Code)

DO NOT File With the Internal Revenue Service

Name of depositor	Date of birth of depositor	**Identifying number** (see instructions)
Address of depositor		Check if Amendment . . ▶ ☐
Name of custodian	Address or principal place of business of custodian	

The depositor whose name appears above is establishing an individual retirement account under section 408(a) to provide for his or her retirement and for the support of his or her beneficiaries after death.

The custodian named above has given the depositor the disclosure statement required under Regulations section 1.408-6.

The depositor has assigned the custodial account ..... dollars ($ .....) in cash.

The depositor and the custodian make the following agreement:

Article I

The custodian may accept additional cash contributions on behalf of the depositor for a tax year of the depositor. The total cash contributions are limited to $2,000 for the tax year unless the contribution is a rollover contribution described in section 402(c), 403(a)(4), 403(b)(8), 408(d)(3), or an employer contribution to a simplified employee pension plan as described in section 408(k)

Article II

The depositor's interest in the balance in the custodial account is nonforfeitable.

Article III

1. No part of the custodial funds may be invested in life insurance contracts, nor may the assets of the custodial account be commingled with other property except in a common trust fund or common investment fund (within the meaning of section 408(a)(5)).

2. No part of the custodial funds may be invested in collectibles (within the meaning of section 408(m)) except as otherwise permitted by section 408(m)(3), which provides an exception for certain gold, silver, and platinum coins, coins issued under the laws of any state, and certain bullion.

Article IV

1. Notwithstanding any provision of this agreement to the contrary, the distribution of the depositor's interest in the custodial account shall be made in accordance with the following requirements and shall otherwise comply with section 408(a)(6) and Proposed Regulations section 1.408-8, including the incidental death benefit provisions of Proposed Regulations section 1.401(a)(9)-2, the provisions of which are incorporated by reference.

2. Unless otherwise elected by the time distributions are required to begin to the depositor under paragraph 3, or to the surviving spouse under paragraph 4, other than in the case of a life annuity, life expectancies shall be recalculated annually. Such election shall be irrevocable as to the depositor and the surviving spouse and shall apply to all subsequent years. The life expectancy of a nonspouse beneficiary may not be recalculated.

3. The depositor's entire interest in the custodial account must be, or begin to be, distributed by the depositor's required beginning date, April 1 following the calendar year end in which the depositor reaches age 70½. By that date, the depositor may elect, in a manner acceptable to the custodian, to have the balance in the custodial account distributed in:

(a) A single sum payment.

(b) An annuity contract that provides equal or substantially equal monthly, quarterly, or annual payments over the life of the depositor.

(c) An annuity contract that provides equal or substantially equal monthly, quarterly, or annual payments over the joint and last survivor lives of the depositor and his or her designated beneficiary.

(d) Equal or substantially equal annual payments over a specified period that may not be longer than the depositor's life expectancy.

(e) Equal or substantially equal annual payments over a specified period that may not be longer than the joint life and last survivor expectancy of the depositor and his or her designated beneficiary.

4. If the depositor dies before his or her entire interest is distributed to him or her, the entire remaining interest will be distributed as follows:

(a) If the depositor dies on or after distribution of his or her interest has begun, distribution must continue to be made in accordance with paragraph 3.

(b) If the depositor dies before distribution of his or her interest has begun, the entire remaining interest will, at the election of the depositor or, if the depositor has not so elected, at the election of the beneficiary or beneficiaries, either

(i) Be distributed by the December 31 of the year containing the fifth anniversary of the depositor's death, or

(ii) Be distributed in equal or substantially equal payments over the life or life expectancy of the designated beneficiary or beneficiaries starting by December 31 of the year following the year of the depositor's death. If, however, the beneficiary is the depositor's surviving spouse, then this distribution is not required to begin before December 31 of the year in which the depositor would have reached age 70½.

(c) Except where distribution in the form of an annuity meeting the requirements of section 408(b)(3) and its related regulations has irrevocably commenced, distributions are treated as having begun on the depositor's required beginning date, even though payments may actually have been made before that date.

(d) If the depositor dies before his or her entire interest has been distributed and if the beneficiary is other than the surviving spouse, no additional cash contributions or rollover contributions may be accepted in the account.

Cat. No. 11820G — Form **5305-A** (Rev. 1-98)

5. In the case of a distribution over life expectancy in equal or substantially equal annual payments, to determine the minimum annual payment for each year, divide the depositor's entire interest in the custodial account as of the close of business on December 31 of the preceding year by the life expectancy of the depositor (or the joint life and last survivor expectancy of the depositor and the depositor's designated beneficiary, or the life expectancy of the designated beneficiary, whichever applies). In the case of distributions under paragraph 3, determine the initial life expectancy (or joint life and last survivor expectancy) using the attained ages of the depositor and designated beneficiary as of their birthdays in the year the depositor reaches age 70½. In the case of a distribution in accordance with paragraph 4(b)(ii), determine life expectancy using the attained age of the designated beneficiary as of the beneficiary's birthday in the year distributions are required to commence.

6. The owner of two or more individual retirement accounts may use the "alternative method" described in Notice 88-38, 1988-1 C.B. 524, to satisfy the minimum distribution requirements described above. This method permits an individual to satisfy these requirements by taking from one individual retirement account the amount required to satisfy the requirement for another.

Article V

1. The depositor agrees to provide the custodian with information necessary for the custodian to prepare any reports required under section 408(i) and Regulations sections 1.408-5 and 1.408-6.

2. The custodian agrees to submit reports to the Internal Revenue Service and the depositor prescribed by the Internal Revenue Service

Article VI

Notwithstanding any other articles which may be added or incorporated, the provisions of Articles I through III and this sentence will be controlling. Any additional articles that are not consistent with section 408(a) and the related regulations will be invalid.

Article VII

This agreement will be amended from time to time to comply with the provisions of the Code and related regulations. Other amendments may be made with the consent of the persons whose signatures appear below.

Note: *The following space (Article VIII) may be used for any other provisions you want to add. If you do not want to add any other provisions, draw a line through this space. If you do add provisions, they must comply with applicable requirements of state law and the Internal Revenue Code.*

Article VIII

Depositor's signature ..... Date .....

Custodian's signature ..... Date .....

Witness' signature .....

(Use only if signature of the depositor or the custodian is required to be witnessed.)

General Instructions

(Section references are to the Internal Revenue Code unless otherwise noted.)

Purpose of Form

Note: *Users of the October 1992 revision of Form 5305-A are not required to use the January 1998 revision of the form.*

Form 5305-A is a model custodial account agreement that meets the requirements of section 408(a) and has been automatically approved by the IRS. An individual retirement account (IRA) is established after the form is fully executed by both the individual (depositor) and the custodian and must be completed no later than the due date of the individual's income tax return for the tax year (without regard to extensions). This account must be created in the United States for the exclusive benefit of the depositor or his or her beneficiaries.

Individuals may rely on regulations for the Tax Reform Act of 1986 to the extent specified in those regulations.

Do not file Form 5305-A with the IRS. Instead, keep it for your records.

For more information on IRAs, including the required disclosures the custodian must give the depositor, see **Pub. 590,** Individual Retirement Arrangements (IRAs).

Definitions

Custodian. The custodian must be a bank or savings and loan association, as defined in section 408(n), or any person who has the approval of the IRS to act as custodian.

Depositor. The depositor is the person who establishes the custodial account.

Identifying Number

The depositor's social security number will serve as the identification number of his or her IRA. An employer identification number (EIN) is required only for an IRA for which a return is filed to report unrelated business taxable income. An EIN is required for a common fund created for IRAs.

IRA for Nonworking Spouse

Form 5305-A may be used to establish the IRA custodial account for a nonworking spouse.

Contributions to an IRA custodial account for a nonworking spouse must be made to a separate IRA custodial account established by the nonworking spouse.

Specific Instructions

Article IV. Distributions made under this article may be made in a single sum, periodic payment, or a combination of both. The distribution option should be reviewed in the year the depositor reaches age 70½ to ensure that the requirements of section 408(a)(6) have been met.

Article VIII. Article VIII and any that follow it may incorporate additional provisions that are agreed to by the depositor and custodian to complete the agreement. They may include, for example, definitions, investment powers, voting rights, exculpatory provisions, amendment and termination, removal of the custodian, custodian's fees, state law requirements, beginning date of distributions, accepting only cash, treatment of excess contributions, prohibited transactions with the depositor, etc. Use additional pages if necessary and attach them to this form.

Note: *Form 5305-A may be reproduced and reduced in size.*

Form **5305-R**
(January 1998)
Department of the Treasury
Internal Revenue Service

Roth Individual Retirement Trust Account

(Under Section 408A of the Internal Revenue Code)

DO NOT File with the Internal Revenue Service

Name of grantor	Date of birth of grantor	Social security number

Address of grantor	Check if Roth Conversion IRA . . . . . ▶ ☐ Check if Amendment . ▶ ☐

Name of trustee	Address or principal place of business of trustee

The grantor whose name appears above is establishing a Roth individual retirement account (Roth IRA) under section 408A to provide for his or her retirement and for the support of his or her beneficiaries after death.

The trustee named above has given the grantor the disclosure statement required under Regulations section 1.408-6.

The grantor has assigned the trust $ .....

The grantor and the trustee make the following agreement:

Article I

1. If this Roth IRA is not designated as a Roth Conversion IRA, then, except in the case of a rollover contribution described in section 408A(e), the trustee will accept only cash contributions and only up to a maximum amount of $2,000 for any tax year of the grantor.

2. If this Roth IRA is designated as a Roth Conversion IRA, no contributions other than IRA Conversion Contributions made during the same tax year will be accepted.

Article II

The $2,000 limit described in Article I is gradually reduced to $0 between certain levels of adjusted gross income (AGI). For a single grantor, the $2,000 annual contribution is phased out between AGI of $95,000 and $110,000; for a married grantor who files jointly, between AGI of $150,000 and $160,000; and for a married grantor who files separately, between $0 and $10,000. In the case of a conversion, the trustee will not accept IRA Conversion Contributions in a tax year if the grantor's AGI for that tax year exceeds $100,000 or if the grantor is married and files a separate return. Adjusted gross income is defined in section 408A(c)(3) and does not include IRA Conversion Contributions.

Article III

The grantor's interest in the balance in the trust account is nonforfeitable.

Article IV

1. No part of the trust funds may be invested in life insurance contracts, nor may the assets of the trust account be commingled with other property except in a common trust fund or common investment fund (within the meaning of section 408(a)(5)).

2. No part of the trust funds may be invested in collectibles (within the meaning of section 408(m)) except as otherwise permitted by section 408(m)(3), which provides an exception for certain gold, silver, and platinum coins, coins issued under the laws of any state, and certain bullion.

Article V

1. If the grantor dies before his or her entire interest is distributed to him or her and the grantor's surviving spouse is not the sole beneficiary, the entire remaining interest will, at the election of the grantor or, if the grantor has not so elected, at the election of the beneficiary or beneficiaries, either:

(a) Be distributed by December 31 of the year containing the fifth anniversary of the grantor's death, or

(b) Be distributed over the life expectancy of the designated beneficiary starting no later than December 31 of the year following the year of the grantor's death.

If distributions do not begin by the date described in **(b)**, distribution method **(a)** will apply.

2. In the case of distribution method **1.(b)** above, to determine the minimum annual payment for each year, divide the grantor's entire interest in the trust as of the close of business on December 31 of the preceding year by the life expectancy of the designated beneficiary using the attained age of the designated beneficiary as of the beneficiary's birthday in the year distributions are required to commence and subtract 1 for each subsequent year.

3. If the grantor's spouse is the sole beneficiary on the grantor's date of death, such spouse will then be treated as the grantor.

Article VI

1. The grantor agrees to provide the trustee with information necessary for the trustee to prepare any reports required under sections 408(i) and 408A(d)(3)(E), and Regulations section 1.408-5 and 1.408-6, and under guidance published by the Internal Revenue Service.

2. The trustee agrees to submit reports to the Internal Revenue Service and the grantor as prescribed by the Internal Revenue Service.

Cat. No. 25093N Form **5305-R** (1-98)

Article VII

Notwithstanding any other articles which may be added or incorporated, the provisions of Articles I through IV and this sentence will be controlling. Any additional articles that are not consistent with section 408A, the related regulations, and other published guidance will be invalid.

Article VIII

This agreement will be amended from time to time to comply with the provisions of the Code, related regulations, and other published guidance. Other amendments may be made with the consent of the persons whose signatures appear below.

Note: *The following space (Article IX) may be used for any other provisions you want to add. If you do not want to add any other provisions, draw a line through this space. If you do add provisions, they must comply with applicable requirements of state law and the Internal Revenue Code.*

Article IX

Grantor's signature ..... Date .....

Trustee's signature ..... Date .....

Witness' signature ..... Date .....
(Use only if signature of the grantor or the trustee is required to be witnessed.)

General Instructions

(Section references are to the Internal Revenue Code unless otherwise noted.)

Purpose of Form

Form 5305-R is a model trust account agreement that meets the requirements of section 408A and has been automatically approved by the IRS. A Roth individual retirement account (Roth IRA) is established after the form is fully executed by both the individual (grantor) and the trustee. This account must be created in the United States for the exclusive benefit of the grantor or his or her beneficiaries.

Do not file Form 5305-R with the IRS. Instead, keep it for your records.

Unlike contributions to traditional individual retirement arrangements, contributions to a Roth IRA are not deductible from the grantor's gross income; and distributions after 5 years that are made when the grantor is 59½ years of age or older or on account of death, disability, or the purchase of a home by a first-time homebuyer (limited to $10,000), are not includible in gross income. For more information on Roth IRAs, including the required disclosure the grantor can get from the trustee, get **Pub. 590,** Individual Retirement Arrangements (IRAs).

This Roth IRA can be used by a grantor to hold: (1) IRA Conversion Contributions, amounts rolled over or transferred from another Roth IRA, and annual cash contributions of up to $2,000 from the grantor; or (2) if designated as a Roth Conversion IRA (by checking the box on page 1), only IRA Conversion Contributions for the same tax year.

To simplify the identification of funds distributed from Roth IRAs, grantors are encouraged to maintain IRA Conversion Contributions for each tax year in a separate Roth IRA.

Definitions

Roth Conversion IRA. A Roth Conversion IRA is a Roth IRA that accepts only IRA Conversion Contributions made during the same tax year.

IRA Conversion Contributions. IRA Conversion Contributions are amounts rolled over, transferred, or considered transferred from a nonRoth IRA to a Roth IRA. A nonRoth IRA is an individual retirement account or annuity described in section 408(a) or 408(b), other than a Roth IRA.

Trustee. The trustee must be a bank or savings and loan asociation, as defined in section 408(n), or any person who has the approval of the IRS to act as trustee.

Grantor. The grantor is the person who establishes the trust account.

Specific Instructions

Article I. The grantor may be subject to a 6 percent tax on excess contributions if **(1)** contributions to other individual retirement arrangements of the grantor have been made for the same tax year, **(2)** the grantor's adjusted gross income exceeds the applicable limits in Article II for the tax year, or **(3)** the grantor's and spouse's compensation does not exceed the amount contributed for them for the tax year. The grantor should see the disclosure statement or Pub. 590 for more information.

Article IX. Article IX and any that follow it may incorporate additional provisions that are agreed to by the grantor and trustee to complete the agreement. They may include, for example, definitions, investment powers, voting rights, exculpatory provisions, amendment and termination, removal of the trustee, trustee's fees, state law requirements, beginning date of distributions, accepting only cash, treatment of excess contributions, prohibited transactions with the grantor, etc. Use additional pages if necessary and attach them to this form.

Note: *Form 5305-R may be reproduced and reduced in size for adaption to passbook purposes.*

Form **5305-RA**
(January 1998)
Department of the Treasury
Internal Revenue Service

Roth Individual Retirement Custodial Account

(Under section 408A of the Internal Revenue Code)

DO NOT File With the Internal Revenue Service

Name of depositor	Date of birth of depositor	**Social security number**
Address of depositor		Check if Roth Conversion IRA ▶ ☐ Check if Amendment . . ▶ ☐
Name of custodian	Address or principal place of business of custodian	

The depositor whose name appears above is establishing a Roth individual retirement account (Roth IRA) under section 408A to provide for his or her retirement and for the support of his or her beneficiaries after death.

The custodian named above has given the depositor the disclosure statement required under Regulations section 1.408-6.

The depositor assigned the custodial account $ .....

The depositor and the custodian make the following agreement:

Article I

1. If this Roth IRA is not designated as a Roth Conversion IRA, then, except in the case of a rollover contribution described in section 408A(e), the custodian will accept only cash contributions and only up to a maximum amount of $2,000 for any tax year of the depositor.

2. If this Roth IRA is designated as a Roth Conversion IRA, no contributions other than IRA Conversion Contributions made during the same tax year will be accepted.

Article II

The $2,000 limit described in Article I is gradually reduced to $0 between certain levels of adjusted gross income (AGI). For a single depositor, the $2,000 annual contribution is phased out between AGI of $95,000 and $110,000; for a married depositor who files jointly, between AGI of $150,000 and $160,000; and for a married depositor who files separately, between $0 and $10,000. In the case of a conversion, the custodian will not accept IRA Conversion Contributions in a tax year if the depositor's AGI for that tax year exceeds $100,000 or if the depositor is married and files a separate return. Adjusted gross income is defined in section 408A(c)(3) and does not include IRA Conversion Contributions.

Article III

The depositor's interest in the balance in the custodial account is nonforfeitable.

Article IV

1. No part of the custodial funds may be invested in life insurance contracts, nor may the assets of the custodial account be commingled with other property except in a common trust fund or common investment fund (within the meaning of section 408(a)(5)).

2. No part of the custodial funds may be invested in collectibles (within the meaning of section 408(m)) except as otherwise permitted by section 408(m)(3), which provides an exception for certain gold, silver, and platinum coins, coins issued under the laws of any state, and certain bullion.

Article V

1. If the depositor dies before his or her entire interest is distributed to him or her and the depositor's surviving spouse is not the sole beneficiary, the entire remaining interest will, at the election of the depositor or, if the depositor has not so elected, at the election of the beneficiary or beneficiaries, either:

(a) Be distributed by December 31 of the year containing the fifth anniversary of the depositor's death, or

(b) Be distributed over the life expectancy of the designated beneficiary starting no later than December 31 of the year following the year of the depositor's death.

If distributions do not begin by the date described in **(b),** distribution method **(a)** will apply.

2. In the case of distribution method **1(b)** above, to determine the minimum annual payment for each year, divide the depositor's entire interest in the custodial account as of the close of business on December 31 of the preceding year by the life expectancy of the designated beneficiary using the attained age of the designated beneficiary as of the beneficiary's birthday in the year distributions are required to commence and subtract 1 for each subsequent year.

3. If the depositor's spouse is the sole beneficiary on the depositor's date of death, such spouse will then be treated as the depositor.

Article VI

1. The depositor agrees to provide the custodian with information necessary for the custodian to prepare any reports required under sections 408(i) and 408A(d)(3)(E), Regulations sections 1.408-5 and 1.408-6, and under guidance published by the Internal Revenue Service.

2. The custodian agrees to submit reports to the Internal Revenue Service and the depositor prescribed by the Internal Revenue Service.

Cat. No. 25094Y Form **5305-RA** (1-98)

Article VII

Notwithstanding any other articles which may be added or incorporated, the provisions of Articles I through IV and this sentence will be controlling. Any additional articles that are not consistent with section 408A, the related regulations, and other published guidance will be invalid.

Article VIII

This agreement will be amended from time to time to comply with the provisions of the Code, related regulations, and other published guidance. Other amendments may be made with the consent of the persons whose signatures appear below.

Note: *The following space (Article IX) may be used for any other provisions you want to add. If you do not want to add any other provisions, draw a line through this space. If you do add provisions, they must comply with applicable requirements of state law and the Internal Revenue Code.*

Article IX

Depositor's signature ..... Date .....

Custodian's signature ..... Date .....

Witness' signature ..... Date .....

(Use only if signature of the depositor or the custodian is required to be witnessed.)

General Instructions

Section references are to the Internal Revenue Code unless otherwise noted.

Purpose of Form

Form 5305-RA is a model custodial account agreement that meets the requirements of section 408A and has been automatically approved by the IRS. A Roth individual retirement account (Roth IRA) is established after the form is fully executed by both the individual (depositor) and the custodian. This account must be created in the United States for the exclusive benefit of the depositor or his or her beneficiaries.

Do not file Form 5305-RA with the IRS. Instead, keep it for your records.

Unlike contributions to traditional individual retirement arrangements, contributions to a Roth IRA are not deductible from the depositor's gross income; and distributions after 5 years that are made when the depositor is 59½ years of age or older or on account of death, disability, or the purchase of a home by a first-time homebuyer (limited to $10,000), are not includible in gross income. For more information on Roth IRAs, including the required disclosure the depositor can get from the custodian, see **Pub. 590,** Individual Retirement Arrangements (IRAs).

This Roth IRA can be used by a despositor to hold: **(1)** IRA Conversion Contributions, amounts rolled over or transferred from another Roth IRA, and annual cash contributions of up to $2,000 from the depositor; or **(2)** if designated as a Roth Conversion IRA (by checking the box on page 1), only IRA Conversion Contributions for the same tax year.

To simplify the identification of funds distributed from Roth IRAs, depositors are encouraged to maintain IRA Conversion Contributions for each tax year in a separate Roth IRA.

Definitions

Roth Conversion IRA. A Roth Conversion IRA is a Roth IRA that accepts only IRA Conversion Contributions made during the same tax year.

IRA Conversion Contributions. IRA Conversion Contributions are amounts rolled over, transferred, or considered transferred from a nonRoth IRA to a Roth IRA. A nonRoth IRA is an individual retirement account or annuity described in section 408(a) or 408(b), other than a Roth IRA.

Custodian. The custodian must be a bank or savings and loan association, as defined in section 408(n), or any person who has the approval of the IRS to act as custodian.

Depositor. The depositor is the person who establishes the custodial account.

Specific Instructions

Article I. The depositor may be subject to a 6 percent tax on excess contributions if **(1)** contributions to other individual retirement arrangements of the depositor have been made for the same tax year, **(2)** the depositor's adjusted gross income exceeds the applicable limits in Article II for the tax year, or **(3)** the depositor's and spouse's compensation does not exceed the amount contributed for them for the tax year. The depositor should see the disclosure statement or Pub. 590 for more information.

Article IX.—Article IX and any that follow it may incorporate additional provisions that are agreed to by the depositor and custodian to complete the agreement. They may include, for example, definitions, investment powers, voting rights, exculpatory provisions, amendment and termination, removal of the custodian, custodian's fees, state law requirements, beginning date of distributions, accepting only cash, treatment of excess contributions, prohibited transactions with the depositor, etc. Use additional pages if necessary and attach them to this form.

Note: *Form 5305-RA may be reproduced and reduced in size for adaption to passbook purposes.*

Form **5305-RB**
(May 1998)
Department of the Treasury
Internal Revenue Service

Roth Individual Retirement Annuity Endorsement

(Under section 408A of the Internal Revenue Code)

DO NOT File with the Internal Revenue Service

Name of issuer

Check if this endorsement supersedes a prior Roth IRA endorsement . . . . . ▶ ☐
Check if Roth Conversion IRA . . . . . ▶ ☐

This endorsement is made a part of the annuity contract to which it is attached, and the following provisions apply in lieu of any provisions in the contract to the contrary.

The annuitant is establishing a Roth individual retirement annuity (Roth IRA) under section 408A to provide for his or her retirement and for the support of his or her beneficiaries after death.

Article I

1. If this Roth IRA is not designated as a Roth Conversion IRA, then, except in the case of a rollover contribution described in section 408A(e), the issuer will accept only cash contributions and only up to a maximum amount of $2,000 for any tax year of the annuitant.

2. If this Roth IRA is designated as a Roth Conversion IRA, no contributions other than IRA Conversion Contributions made during the same tax year will be accepted.

Article II

The $2,000 limit described in Article I is gradually reduced to $0 between certain levels of adjusted gross income (AGI). For a single annuitant, the $2,000 annual contribution is phased out between AGI of $95,000 and $110,000; for a married annuitant who files jointly, between AGI of $150,000 and $160,000; and for a married annuitant who files separately, between $0 and $10,000. In the case of a conversion, the issuer will not accept IRA Conversion Contributions in a tax year if the annuitant's AGI for that tax year exceeds $100,000 or if the annuitant is married and files a separate return. Adjusted gross income is defined in section 408A(c)(3) and does not include IRA Conversion Contributions.

Article III

The annuitant's interest in the contract is nonforfeitable and nontransferable.

Article IV

1. The contract does not require fixed contributions.

2. Any dividends (refund of contributions other than those attributable to excess contributions) arising under the contract will be applied before the close of the calendar year following the year of the dividend as contributions toward the contract.

Article V

1. If the annuitant dies before his or her entire interest in the contract is distributed to him or her and the annuitant's surviving spouse is not the sole beneficiary, the entire remaining interest will, at the election of the annuitant or, if the annuitant has not so elected, at the election of the beneficiary, either:

(a) Be distributed by December 31 of the calendar year containing the fifth anniversary of the annuitant's death, or

(b) Be distributed over the life, or a period not longer than the life expectancy, of the designated beneficiary starting no later than December 31 of the calendar year following the calendar year of the annuitant's death. Life expectancy is computed using the expected return multiples in Table V of section 1.72-9 of the Income Tax Regulations.

If distributions do not begin by the date described in **(b),** distribution method **(a)** will apply.

2. If the annuitant's spouse is the sole beneficiary on the annuitant's date of death, such spouse will then be treated as the annuitant.

Article VI

1. The annuitant agrees to provide the issuer with information necessary for the issuer to prepare any reports required under sections 408(i) and 408A(d)(3)(E), and Regulations section 1.408-5 and 1.408-6, and under guidance published by the Internal Revenue Service.

2. The issuer agrees to submit reports to the Internal Revenue Service and the annuitant as prescribed by the Internal Revenue Service.

Article VII

Notwithstanding any other articles which may be added or incorporated, the provisions of Articles I through IV and this sentence will be controlling. Any additional articles that are not consistent with section 408A, the related regulations, and other published guidance will be invalid.

Article VIII

This endorsement will be amended from time to time to comply with the provisions of the Code, related regulations, and other published guidance. Other amendments may be made with the consent of the persons whose signatures appear on the contract.

Cat. No. 25871H Form **5305-RB** (5-98)

Note: *The following space (Article IX) may be used for any other provisions the annuitant and the issuer want to add. If no other provisions will be added, draw a line through this space. If provisions are added, they must comply with applicable requirements of state law and the Internal Revenue Code.*

Article IX

General Instructions

(Section references are to the Internal Revenue Code unless otherwise noted.)

Purpose of Form

Form 5305-RB is a model annuity endorsement that meets the requirements of section 408A and has been automatically approved by the IRS. A Roth individual retirement annuity (Roth IRA) is established after the contract, which includes this endorsement, is fully executed by both the individual (annuitant) and the issuer. The contract must be for the exclusive benefit of the annuitant or his or her beneficiaries.

Do not file Form 5305-RB with the IRS. Instead, keep it for records purposes.

Unlike contributions to traditional individual retirement arrangements, contributions to a Roth IRA are not deductible from the annuitant's gross income; and distributions after 5 years that are made when the annuitant is 59½ years of age or older or on account of death, disability, or the purchase of a home by a first-time homebuyer (limited to $10,000), are not includible in gross income. For more information on Roth IRAs, including the required disclosure the annuitant can get from the issuer, get **Pub. 590,** Individual Retirement Arrangements (IRAs).

This Roth IRA can be used by an annuitant to hold: (1) IRA Conversion Contributions, amounts rolled over or transferred from another Roth IRA, and annual cash contributions of up to $2,000 from the annuitant; or (2) if designated as a Roth Conversion IRA (by checking the box on page 1), only IRA Conversion Contributions for the same tax year.

To simplify the identification of funds distributed from Roth IRAs, annuitants are encouraged to maintain IRA Conversion Contributions for each tax year in a separate Roth IRA.

Definitions

Roth Conversion IRA. A Roth Conversion IRA is a Roth IRA that accepts only IRA Conversion Contributions made during the same tax year.

IRA Conversion Contributions. IRA Conversion Contributions are amounts rolled over, transferred, or considered transferred from a nonRoth IRA to a Roth IRA. A nonRoth IRA is an individual retirement account or annuity described in section 408(a) or 408(b), other than a Roth IRA.

Issuer. The issuer is the insurance company providing the annuity contract. The insurance company may use other terms besides "issuer" to refer to itself, such as, "company," "insurer," or "us."

Annuitant. The annuitant is the person who establishes the annuity contract. The insurance company may use other terms besides "annuitant" to refer to the person who establishes the annuity contract, such as, "owner," "applicant," "insured," or "you."

Specific Instructions

Article I. The annuitant may be subject to a 6-percent tax on excess contributions if **(1)** contributions to other individual retirement arrangements of the annuitant have been made for the same tax year, **(2)** the annuitant's adjusted gross income exceeds the applicable limits in Article II for the tax year, or **(3)** the annuitant's and spouse's compensation does not exceed the amount contributed for them for the tax year. The annuitant should see the disclosure statement or Pub. 590 for more information.

Article IX. Article IX and any that follow it may incorporate additional provisions that are agreed to by the annuitant and issuer to complete the contract. They may include, for example, definitions, investment powers, voting rights, exculpatory provisions, amendment and termination, removal of the issuer, issuer's fees, state law requirements, beginning date of distributions, accepting only cash, treatment of excess contributions, prohibited transactions with the annuitant, etc. Use additional pages if necessary and attach them to this form.

Note: *Form 5305-RB may be reproduced and reduced in size for adaption to passbook purposes.*

Form **5305-E**
(January 1999)
Department of the Treasury
Internal Revenue Service

Education Individual Retirement Trust Account

(Under section 530 of the Internal Revenue Code)

DO NOT File With the Internal Revenue Service

Name of grantor	**Grantor's identification number**	Check if Amendment ▶ ☐
Name of designated beneficiary	**Designated beneficiary's identification number**	
Address of designated beneficiary	Date of birth of designated beneficiary	
Name of responsible individual (generally the parent or guardian of the designated beneficiary)		
Address of responsible individual		
Name of trustee	Address or principal place of business of trustee	

The grantor whose name appears above is establishing an individual retirement trust account under section 530 for the benefit of an individual who is the above-named designated beneficiary exclusively to pay for the qualified higher education expenses, within the meaning of section 530(b)(2), of such designated beneficiary.

The trustee named above has provided the grantor with a concise statement disclosing the provisions governing section 530. This disclosure statement must include an explanation of the statutory requirements applicable to, and the income tax consequences of establishing and maintaining an account under, section 530. Providing the grantor with a copy of Notice 97-60, 1997-2 C.B. 310, is considered a sufficient disclosure statement. The trustee also will provide a copy of this form and the disclosure statement to the responsible individual, as defined in Article VI below, if the responsible individual is not the same person as the grantor.

The grantor has assigned the trust ..... dollars ($ .....) in cash.

The grantor and the trustee make the following agreement:

Article I

The trustee may accept additional cash contributions. These contributions may be from the grantor, or from any other individual, for the benefit of the designated beneficiary, provided the designated beneficiary has not attained the age of 18 as of the date such contributions are made. Total contributions that are not rollover contributions described in section 530(d)(5) are limited to a maximum amount of $500 for the taxable year.

Article II

The maximum aggregate contribution that an individual may make to the trust in any year may not exceed the $500 in total contributions that the trust can receive. In addition, the maximum aggregate contribution that an individual may make to the trust in any year is phased out for individuals who have modified adjusted gross income (AGI) between $95,000 and $110,000 for the year of the contribution (the phase-out range for married individuals who file joint returns is modified AGI between $150,000 and $160,000 for the year of the contribution). Individuals with modified AGI above $110,000 for the year and married individuals who file joint returns and have modified AGI above $160,000 for the year may not make a contribution for that year. Modified AGI is defined in section 530(c)(2).

Article III

No part of the trust funds may be invested in life insurance contracts, nor may the assets of the trust account be commingled with other property except in a common trust fund or a common investment fund (within the meaning of section 530(b)(1)(D)).

Article IV

1. Any balance to the credit of the designated beneficiary on the date on which such designated beneficiary attains age 30 shall be distributed to the designated beneficiary within 30 days of such date.

2. Any balance to the credit of the designated beneficiary shall be distributed within 30 days of the date of such designated beneficiary's death unless the designated death beneficiary is a family member of the designated beneficiary who is under the age of 30 on the date of death. In such a case, the family members shall become the designated beneficiary as of the date of death.

Article V

The grantor shall have the power to direct the trustee regarding the investment of the above-listed amount assigned to the trust (including earnings thereon) in the investment choices offered by the trustee. The responsible individual, however, shall have the power to redirect the trustee regarding the investment of such amounts, as well as the power to direct the trustee regarding the investment of all additional contributions (including earnings thereon) to the trust. In the event that the responsible individual does not direct the trustee regarding the investment of additional contributions (including earnings thereon), the initial investment direction of the grantor also will govern all additional contributions made to the trust account until such time as the responsible individual otherwise directs the trustee. Unless otherwise provided in this agreement, the responsible individual also shall have the power to direct the trustee regarding the administration, management, and distribution of the account.

Article VI

The "responsible individual" named by the grantor shall be a parent or guardian of the designated beneficiary. The trust shall have only one responsible individual at any time. If the responsible individual becomes incapacitated or dies while the designated beneficiary is a minor under state law, the successor responsible individual shall be the person named to succeed in that capacity by the preceding responsible individual in a witnessed writing or, if no successor is so named, the successor responsible individual shall be the designated beneficiary's other parent or successor guardian. Unless otherwise directed by checking the option on page 2, at the time that the designated beneficiary attains the age of majority under state law, the designated beneficiary becomes the responsible individual. If a family member under the age of majority under state law becomes the designated beneficiary by reason of being a named death beneficiary, the responsible individual shall be such designated beneficiary's parent or guardian

____**Option** (*This provision is effective only if checked*): The responsible individual shall continue to serve as the responsible individual for the trust after the designated beneficiary attains the age of majority under state law and until such time as all assets have been distributed from the trust and the trust terminates. If the responsible individual becomes incapacitated or dies after the designated beneficiary reaches the age of majority under state law, the responsible individual shall be the designated beneficiary.

Article VII

The responsible individual ____ may or ____ may not change the beneficiary designated under this agreement to another member of the designated beneficiary's family described in section 529(e)(2) in accordance with the trustee's procedures.

Article VIII

1. The grantor agrees to provide the trustee with the information necessary for the trustee to prepare any reports required under section 530(h).
2. The trustee agrees to submit reports to the Internal Revenue Service and the responsible individual as prescribed by the Internal Revenue Service.

Article IX

Notwithstanding any other articles which may be added or incorporated, the provisions of Articles I through IV will be controlling. Any additional articles that are not consistent with section 530 and related regulations will be invalid.

Article X

This agreement will be amended from time to time to comply with the provisions of the Code and related regulations. Other amendments may be made with the consent of the grantor and trustee whose signatures appear below.

Note: *The following space (Article XI) may be used for any other provisions you want to add. If you do not want to add any other provisions, draw a line through this space. If you do add provisions, they must comply with applicable requirements of state law and the Internal Revenue Code.*

Grantor's signature ..... Date .....

Trustee's signature ..... Date .....

Witness' signature ..... Date .....
(Use only if signature of the grantor or the trustee is required to be witnessed.)

General Instructions

Section references are to the Internal Revenue Code unless otherwise noted

Purpose of Form

Form 5305-E is a model trust account agreement that meets the requirements of section 530(a) and has been automatically approved by the IRS. An education individual retirement account (Ed IRA) is established after the form is fully executed by both the grantor and the trustee. This account must be created in the United States for the exclusive purpose of paying the qualified higher education expenses of an individual who is the designated beneficiary.

If the model account is a custodial account, get **Form 5305-EA,** Education Individual Retirement Custodial Account.

Do not file Form 5305-E with the IRS. Instead, keep it for your records.

For more information, including information about the required disclosure you must get from your trustee, see Notice 97-60, 1997-2 C.B. 310.

Definitions

Trustee. The trustee must be a bank or savings and loan association, as defined in section 408(n), or any person who has the approval of the IRS to act as trustee. Any person who may serve as a trustee of a traditional IRA may serve as the trustee of an Ed IRA.

Grantor. The grantor is the person who establishes the trust account.

Designated beneficiary. The designated beneficiary is the individual on whose behalf the trust account has been established.

Family member. Family members of the designated beneficiary include the spouse of the designated beneficiary. Family members also include a child, grandchild, sibling, parent, niece or nephew, son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law of the designated beneficiary, and the spouse of any such individual.

Responsible individual. The responsible individual, generally, is a parent or guardian of the designated beneficiary. However, under certain circumstances, the responsible individual may be the designated beneficiary.

Identification Numbers

The grantor and designated beneficiary's social security numbers will serve as their identification numbers. If the grantor is a nonresident alien and does not have an identification number, write "Foreign" in the block where the number is requested. The designated beneficiary's social security number is the identification number of his or her Ed IRA. If the designated beneficiary is a nonresident alien, the designated beneficiary's individual taxpayer identification number is the identification number of his or her Ed IRA. An employer identification number (EIN) is required only for an Ed IRA for which a return is filed to report unrelated business income. An EIN is required for a common fund created for Ed IRAs.

Specific Instructions

Article XI. Article XI and any that follow may incorporate additional provisions that are agreed to by the grantor and trustee to complete the agreement. They may include, for example, provisions relating to: definitions, investment powers, voting rights, exculpatory provisions, amendment and termination, removal of the trustee, trustee's fees, state law requirements, treatment of excess contributions, and prohibited transactions with the grantor, designated beneficiary, or responsible individual, etc. Use additional pages as necessary and attach them to this form.

Optional provisions in Article VI and Article VII. Form 5305-E may be reproduced in a manner that provides only those optional provisions offered by the trustee.

Note: *Form 5305-E may be reproduced and reduced in size for adaption to passbook purposes.*

Form **5305-EA**
(January 1999)
Department of the Treasury
Internal Revenue Service

Education Individual Retirement Custodial Account

(Under section 530 of the Internal Revenue Code)

DO NOT File With the Internal Revenue Service

Name of depositor	Depositor's identification number	Check if Amendment . ▶ ☐
Name of designated beneficiary	Designated beneficiary's identification number	
Address of designated beneficiary	Date of birth of designated beneficiary	

Name of responsible individual (generally the parent or guardian of the designated beneficiary)

Address of responsible individual

Name of custodian	Address or principal place of business of custodian

The depositor whose name appears above is establishing an individual retirement account under section 530 for the benefit of an individual who is the above custodial named designated beneficiary exclusively to pay for the qualified higher education expenses, within the meaning of section 530(b)(2), of such designated beneficiary.

The custodian named above has provided the depositor with a concise statement disclosing the provisions governing section 530. This disclosure statement must include an explanation of the statutory requirements applicable to, and the income tax consequences of establishing and maintaining an account under section 530. Providing the depositor with a copy of Notice 97-60, 1997-2 C.B. 310, is considered a sufficient disclosure statement. The custodian also will provide a copy of this form and the disclosure statement to the responsible individual, as defined in Article VI below, if the responsible individual is not the same person as the depositor.

The depositor assigned the custodial account ..... dollars ($ .....) in cash.
The depositor and the custodian make the following agreement:

Article I

The custodian may accept additional cash contributions. These contributions may be from the depositor, or from any other individual, for the benefit of the designated beneficiary, provided the designated beneficiary has not attained the age of 18 as of the date such contributions are made. Total contributions that are not rollover contributions described in section 530(d)(5) are limited to a maximum amount of $500 for the taxable year.

Article II

The maximum aggregate contribution that an individual may make to the custodial account in any year may not exceed the $500 in total contributions that the custodial account can receive. In addition, the maximum aggregate contribution that an individual may make to the custodial account in any year is phased out for individuals who have modified adjusted gross income (AGI) between $95,000 and $110,000 for the year of the contribution (the phase-out range for married individuals who file joint returns is modified AGI between $150,000 and $160,000 for the year of the contribution). Individuals with modified AGI above $110,000 for the year and married individuals who file joint returns and have modified AGI above $160,000 for the year may not make a contribution for that year. Modified AGI is defined in section 530(c)(2).

Article III

No part of the custodial account funds may be invested in life insurance contracts, nor may the assets of the custodial account be commingled with other property except in a common trust fund or a common investment fund (within the meaning of section 530(b)(1)(D)).

Article IV

1. Any balance to the credit of the designated beneficiary on the date on which such designated beneficiary attains age 30 shall be distributed to the designated beneficiary within 30 days of such date.

2. Any balance to the credit of the designated beneficiary shall be distributed within 30 days of the date of such designated beneficiary's death unless the designated death beneficiary is a family member of the designated beneficiary who is under the age of 30 on the date of death. In such a case, the family member shall become the designated beneficiary as of the date of death

Article V

The depositor shall have the power to direct the custodian regarding the investment of the above-listed amount assigned to the custodial account (including earnings thereon) in the investment choices offered by the custodian. The responsible individual, however, shall have the power to redirect the custodian regarding the investment of such amounts, as well as the power to direct the custodian regarding the investment of all additional contributions (including earnings thereon) to the custodial account. In the event that the responsible individual does not direct the custodian regarding the investment of additional contributions (including earnings thereon), the initial investment direction of the depositor also will govern all additional contributions made to the custodial account until such time as the responsible individual otherwise directs the custodian. Unless otherwise provided in this agreement, the responsible individual also shall have the power to direct the custodian regarding the administration, management, and distribution of the account.

Article VI

The "responsible individual" named by the depositor shall be a parent or guardian of the designated beneficiary. The custodial account shall have only one responsible individual at any time. If the responsible individual becomes incapacitated or dies while the designated beneficiary is a minor under state law, the successor responsible individual shall be the person named to succeed in that capacity by the preceding responsible individual in a witnessed writing or, if no successor is so named, the successor responsible individual shall be the designated beneficiary's other parent or successor guardian. Unless otherwise directed by checking the option below, at the time that the designated beneficiary attains the age of majority under state law, the designated beneficiary becomes the responsible individual. If a family member under the age of majority under state law becomes the designated beneficiary by reason of being a named death beneficiary, the responsible individual shall be such designated beneficiary's parent or guardian.

_____ **Option** *(This provision is effective only if checked):* The responsible individual shall continue to serve as the responsible individual for the custodial account after the designated beneficiary attains the age of majority under state law and until such time as all assets have been distributed from the custodial account and the custodial account terminates. If the responsible individual becomes incapacitated or dies after the designated beneficiary reaches the age of majority under state law, the responsible individual shall be the designated beneficiary.

Cat. No. 25204K Form **5305-EA** (1-99)

Article VII

The responsible individual ____ may or ____ may not change the beneficiary designated under this agreement to another member of the designated beneficiary's family described in section 529(e)(2) in accordance with the custodian's procedures.

Article VIII

1. The depositor agrees to provide the custodian with the information necessary for the custodian to prepare any reports required under section 530(h)

2. The custodian agrees to submit reports to the Internal Revenue Service and the responsible individual as prescribed by the Internal Revenue Service.

Article IX

Notwithstanding any other articles which may be added or incorporated, the provisions of Articles I through IV will be controlling. Any additional articles that are not consistent with section 530 and related regulations will be invalid.

Article X

This agreement will be amended from time to time to comply with the provisions of the Code and related regulations. Other amendments may be made with the consent of the depositor and the custodian whose signatures appear below

Note: *The following space (Article XI) may be used for any other provisions you want to add. If you do not want to add any other provisions, draw a line through this space. If you do add provisions, they must comply with applicable requirements of state law and the Internal Revenue Code.*

Depositor's signature ..... Date .....

Custodian's signature ..... Date .....

Witness' signature ..... Date .....

(Use only if signature of the depositor or the custodian is required to be witnessed.)

General Instructions

Section references are to the Internal Revenue Code unless otherwise noted.

Purpose of Form

Form 5305-EA is a model custodial account agreement that meets the requirements of section 530(a) and has been automatically approved by the IRS. An education individual retirement account (Ed IRA) is established after the form is fully executed by both the depositor and the custodian. This account must be created in the United States for the exclusive purpose of paying the qualified higher education expenses of an individual who is the designated beneficiary.

If the model account is a trust account, get **Form 5305-E,** Education Individual Retirement Trust Account.

Do not file Form 5305-EA with the IRS Instead, keep it for your records.

For more information, including information about the required disclosure you must get from your custodian, see Notice 97-60, 1997-2 C B. 310

Definitions

Custodian. The custodian must be a bank or savings and loan association, as defined in section 408(n), or any person who has the approval of the IRS to act as custodian. Any person who may serve as a custodian of a traditional IRA may serve as the custodian of an Ed IRA

Depositor. The depositor is the person who establishes the custodial account.

Designated beneficiary. The designated beneficiary is the individual on whose behalf the custodial account has been established.

Family member. Family members of the designated beneficiary include the spouse of such designated beneficiary. Family members also include a child, grandchild, sibling, parent, niece or nephew, son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law of the designated beneficiary, and the spouse of any such individual.

Responsible individual. The responsible individual, generally, is a parent or guardian of the designated beneficiary. However, under certain circumstances, the responsible individual may be the designated beneficiary.

Identification Numbers

The depositor's and designated beneficiary's social security numbers will serve as their identification numbers. If the depositor is a nonresident alien and does not have an identification number, write "Foreign" in the block where the number is requested. The designated beneficiary's social security number is the identification number of his or her Ed IRA. If the designated beneficiary is a nonresident alien, the designated beneficiary's individual taxpayer identification number is the identification number of his or her Ed IRA. An employer identification number (EIN) is required only for an Ed IRA for which a return is filed to report unrelated business income. An EIN is required for a common fund created for Ed IRAs.

Specific Instructions

Article XI. Article XI and any that follow may incorporate additional provisions that are agreed to by the depositor and custodian to complete the agreement. They may include, for example, provisions relating to: definitions, investment powers, voting rights, exculpatory provisions, amendment and termination, removal of the custodian, custodian's fees, state law requirements, treatment of excess contributions, and prohibited transactions with the depositor, designated beneficiary, or responsible individual, etc. Use additional pages as necessary and attach them to this form.

Optional provisions in Article VI and Article VII. Form 5305-EA may be reproduced in a manner that provides only those optional provisions offered by the custodian.

Note: *Form 5305-EA may be reproduced and reduced in size for adaption to passbook purposes.*

Form **5305-SEP**
(Rev January 1997)
Department of the Treasury
Internal Revenue Service

Simplified Employee Pension-Individual Retirement Accounts Contribution Agreement

(Under section 408(k) of the Internal Revenue Code)

OMB No. 1545-0499

DO NOT File With the Internal Revenue Service

_____ makes the following agreement under section 408(k) of the
(Name of employer)
Internal Revenue Code and the instructions to this form.

Article I—Eligibility Requirements (Check appropriate boxes—see **Instructions.**)

The employer agrees to provide for discretionary contributions in each calendar year to the individual retirement account or individual retirement annuity (IRA) of all employees who are at least _____ years old (not to exceed 21 years old) and have performed services for the employer in at least _____ years (not to exceed 3 years) of the immediately preceding 5 years. This simplified employee pension (SEP) ☐ includes ☐ does not include employees covered under a collective bargaining agreement, ☐ includes ☐ does not include certain nonresident aliens, and ☐ includes ☐ does not include employees whose total compensation during the year is less than $400*.

Article II—SEP Requirements (See **Instructions.**)

The employer agrees that contributions made on behalf of each eligible employee will be:

A. Based only on the first $160,000* of compensation.
B. Made in an amount that is the same percentage of compensation for every employee.
C. Limited annually to the smaller of $30,000* **or** 15% of compensation.
D. Paid to the employee's IRA trustee, custodian, or insurance company (for an annuity contract).

Employer's signature and date

Name and title

Paperwork Reduction Act Notice

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by Code section 6103.

The time needed to complete this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping . . . . 1 hr., 40 min.
Learning about the law or the form . . . . 1 hr., 35 min.
Preparing the form . . . 1 hr., 41 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001. **DO NOT** send this form to this address. Instead, keep it for your records.

Instructions

Section references are to the Internal Revenue Code unless otherwise noted.

Purpose of Form

Form 5305-SEP (Model SEP) is used by an employer to make an agreement to provide benefits to all eligible employees under a SEP described in section 408(k). **Do not** file this form with the IRS. See **Pub. 560,** Retirement Plans for the Self-Employed, and **Pub. 590,** Individual Retirement Arrangements (IRAs).

Instructions to the Employer

Simplified Employee Pension.—A SEP is a written arrangement (a plan) that provides you with a simplified way to make contributions toward your employees' retirement income. Under a SEP, you can contribute to an employee's individual retirement account or annuity (IRA). You make contributions directly to an IRA set up by or for each employee with a bank, insurance company, or other qualified financial institution. When using Form 5305-SEP to establish a SEP, the IRA must be a Model IRA established on an IRS form or a master or prototype IRA for which the IRS has issued a favorable opinion letter. Making the agreement on Form 5305-SEP does not establish an employer IRA described in section 408(c).

When Not To Use Form 5305-SEP.—Do not use this form if you:

1. Currently maintain any other qualified retirement plan. This does not prevent you from maintaining another SEP.

2. Previously maintained a defined benefit plan that is now terminated.

3. Have any eligible employees for whom IRAs have not been established.

4. Use the services of leased employees (described in section 414(n)).

5. Are a member of an affiliated service group (described in section 414(m)), a controlled group of corporations (described in section 414(b)), or trades or businesses under common control (described in sections 414(c) and 414(o)), unless all eligible employees of all the members of such groups, trades, or businesses, participate in the SEP.

6. Will not pay the cost of the SEP contributions. Do not use Form 5305-SEP for a SEP that provides for elective employee contributions even if the contributions are made under a salary reduction agreement.

Use Form 5305A-SEP, or a nonmodel SEP if you permit elective deferrals to a SEP.

Note: *SEPs permitting elective deferrals cannot be established after 1996.*

Eligible Employees.—All eligible employees must be allowed to participate in the SEP. An eligible employee is any employee who: **(1)** is at least 21 years old, and **(2)** has performed "service" for you in at least 3 of the immediately preceding 5 years.

Note: *You can establish less restrictive eligibility requirements, but not more restrictive ones.*

Service is any work performed for you for any period of time, however short. If you are a member of an affiliated service group, a controlled group of corporations, or trades or businesses under common control, service includes any work performed for any period of time for any other member of such group, trades, or businesses.

Excludable Employees.—The following employees do not have to be covered by the SEP: **(1)** employees covered by a collective bargaining agreement whose retirement benefits were bargained for in good faith by you and their union, **(2)** nonresident alien employees who did not earn U.S. source income from you, and **(3)** employees who received less than $400* in compensation during the year.

Contribution Limits.—The SEP rules permit you to make an annual contribution of up to 15% of the employee's compensation or $30,000*, whichever is less. Compensation, for this purpose, does not include employer contributions to the SEP or the employee's compensation in excess of $160,000*. If you also maintain a Model Elective SEP or any

* *This amount reflects the cost-of-living increase effective January 1, 1997. The amount is adjusted annually. The IRS announces the increase, if any, in a news release and in the Internal Revenue Bulletin.*

Cat. No. 11825J Form **5305-SEP** (Rev. 1-97)

other SEP that permits employees to make elective deferrals, contributions to the two SEPs together may not exceed the smaller of $30,000* or 15% of compensation for any employee.

Contributions cannot discriminate in favor of highly compensated employees. You are not required to make contributions every year. But you must contribute to the SEP IRAs of all of the eligible employees who actually performed services during the year of the contribution. This includes eligible employees who die or quit working before the contribution is made.

You may also not integrate your SEP contributions with, or offset them by, contributions made under the Federal Insurance Contributions Act (FICA).

If this SEP is intended to meet the top-heavy minimum contribution rules of section 416, but it does not cover all your employees who participate in your elective SEP, then you must make minimum contributions to IRAs established on behalf of those employees.

Deducting Contributions.—You may deduct contributions to a SEP subject to the limits of section 404(h). This SEP is maintained on a calendar year basis and contributions to the SEP are deductible for your tax year with or within which the calendar year ends. Contributions made for a particular tax year must be made by the due date of your income tax return (including extensions) for that tax year.

Completing the Agreement.—This agreement is considered adopted when:

- IRAs have been established for all your eligible employees;
- You have completed all blanks on the agreement form without modification; and
- You have given all your eligible employees the following information:

1. A copy of Form 5305-SEP.

2. A statement that IRAs other than the IRAs into which employer SEP contributions will be made may provide different rates of return and different terms concerning, among other things, transfers and withdrawals of funds from the IRAs.

3. A statement that, in addition to the information provided to an employee at the time the employee becomes eligible to participate, the administrator of the SEP must furnish each participant within 30 days of the effective date of any amendment to the SEP, a copy of the amendment and a written explanation of its effects.

4. A statement that the administrator will give written notification to each participant of any employer contributions made under the SEP to that participant's IRA by the later of January 31 of the year following the year for which a contribution is made or 30 days after the contribution is made.

Employers who have established a SEP using Form 5305-SEP and have furnished each eligible employee with a copy of the completed Form 5305-SEP and provided the other documents and disclosures described in **Instructions to the Employer** and **Information for the Employee,** are not required to file the annual information returns, Forms 5500, 5500-C/R, or 5500-EZ for the SEP. However, under Title I of ERISA, this relief from the annual reporting requirements may not be available to an employer who selects, recommends, or influences its employees to choose IRAs into which contributions will be made under the SEP, if those IRAs are subject to provisions that impose any limits on a participant's ability to withdraw funds (other than restrictions imposed by the Code that apply to all IRAs). For additional information on Title I requirements, see the Department of Labor regulation at 29 CFR 2520.104-48.

Information for the Employee

The information below explains what a SEP is, how contributions are made, and how to treat your employer's contributions for tax purposes. For more information, see Pub. 590.

Simplified Employee Pension.—A SEP is a written arrangement (a plan) that allows an employer to make contributions toward your retirement. Contributions are made to an individual retirement account/annuity (IRA). Contributions must be made to either a Model IRA executed on an IRS form or a master or prototype IRA for which the IRS has issued a favorable opinion letter.

An employer is not required to make SEP contributions. If a contribution is made, it must be allocated to all the eligible employees according to the SEP agreement. The Model SEP (Form 5305-SEP) specifies that the contribution for each eligible employee will be the same percentage of compensation (excluding compensation higher than $160,000*) for all employees.

Your employer will provide you with a copy of the agreement containing participation rules and a description of how employer contributions may be made to your IRA. Your employer must also provide you with a copy of the completed Form 5305-SEP and a yearly statement showing any contributions to your IRA.

All amounts contributed to your IRA by your employer belong to you even after you stop working for that employer.

Contribution Limits.—Your employer will determine the amount to be contributed to your IRA each year. However, the amount for any year is limited to the smaller of $30,000* or 15% of your compensation for that year. Compensation does not include any amount that is contributed by your employer to your IRA under the SEP. Your employer is not required to make contributions every year or to maintain a particular level of contributions.

Tax Treatment of Contributions.—Employer contributions to your SEP-IRA are excluded from your income unless there are contributions in excess of the applicable limit. Employer contributions within these limits will not be included on your Form W-2.

Employee Contributions.—You may contribute the smaller of $2,000 or 100% of your compensation to an IRA. However, the amount you can deduct may be reduced or eliminated because, as a participant in a SEP, you are covered by an employer retirement plan.

SEP Participation.—If your employer does not require you to participate in a SEP as a condition of employment, and you elect not to participate, all other employees of your employer may be prohibited from participating. If one or more eligible employees do not participate and the employer tries to establish a SEP for the remaining employees, it could cause adverse tax consequences for the participating employees.

An employer may not adopt this IRS Model SEP if the employer maintains another qualified retirement plan or has ever maintained a qualified defined benefit plan. This does not prevent your employer from adopting this IRS Model SEP and also maintaining an IRS Model Elective SEP or other SEP. However, if you work for several employers, you may be covered by a SEP of one employer and a different SEP or pension or profit-sharing plan of another employer.

SEP-IRA Amounts—Rollover or Transfer to Another IRA.—You can withdraw or receive funds from your SEP-IRA if within 60 days of receipt, you place those funds in another IRA or SEP-IRA. This is called a "rollover" and can be done without penalty only once in any 1-year period. However, there are no restrictions on the number of times you may make "transfers" if you arrange to have these funds transferred between the trustees or the custodians so that you never have possession of the funds.

Withdrawals.—You may withdraw your employer's contribution at any time, but any amount withdrawn is includible in your income unless rolled over. Also, if withdrawals occur before you reach age 59½, you may be subject to a tax on early withdrawal.

Excess SEP Contributions.—Contributions exceeding the yearly limitations may be withdrawn without penalty by the due date (plus extensions) for filing your tax return (normally April 15), but is includible in your gross income. Excess contributions left in your SEP-IRA account after that time may have adverse tax consequences. Withdrawals of those contributions may be taxed as premature withdrawals.

Financial Institution Requirements.—The financial institution where your IRA is maintained must provide you with a disclosure statement that contains the following information in plain, nontechnical language:

1. The law that relates to your IRA.

2. The tax consequences of various options concerning your IRA.

3. Participation eligibility rules, and rules on the deductibility of retirement savings.

4. Situations and procedures for revoking your IRA, including the name, address, and telephone number of the person designated to receive notice of revocation. (This information must be clearly displayed at the beginning of the disclosure statement.)

5. A discussion of the penalties that may be assessed because of prohibited activities concerning your IRA.

6. Financial disclosure that provides the following information:

a. Projects value growth rates of your IRA under various contribution and retirement schedules, or describes the method of determining annual earnings and charges that may be assessed.

b. Describes whether, and for when, the growth projections are guaranteed, or a statement of the earnings rate and the terms on which the projections are based.

c. States the sales commission for each year expressed as a percentage of $1,000.

In addition, the financial institution must provide you with a financial statement each year. You may want to keep these statements to evaluate your IRA's investment performance.

* *This amount reflects the cost-of-living increase effective January 1, 1997. The amount is adjusted annually. The IRS announces the increase, if any, in a news release and in the Internal Revenue Bulletin.*

Form **5305A-SEP**
(Rev December 1997)
Department of the Treasury
Internal Revenue Service

Salary Reduction and Other Elective Simplified Employee Pension-Individual Retirement Accounts Contribution Agreement

(Under section 408(k) of the Internal Revenue Code)

OMB No. 1545-1012

DO NOT File with the Internal Revenue Service

_____ amends its elective SEP by adopting the following Model Elective SEP under section
Name of employer

408(k) of the Internal Revenue Code and the instructions to this form. **(Important:** *An employer may not establish an elective SEP after 1996.*)

Article I—Eligibility Requirements (Check appropriate boxes—see instructions.)

Provided the requirements of Article III are met, the employer agrees to permit elective deferrals to be made in each calendar year to the individual retirement accounts or individual retirement annuities (IRAs), established by or for all employees who are at least _____ years old (not to exceed 21 years) and have performed services for the employer in at least _____ years (not to exceed 3 years) of the immediately preceding 5 years. This simplified employee pension (SEP) ☐ includes ☐ does not include employees covered under a collective bargaining agreement, ☐ includes ☐ does not include certain nonresident aliens, and ☐ includes ☐ does not include employees whose total compensation during the year is less than $400*.

Article II—Elective Deferrals (See instructions.)

A. Salary Reduction Option. An eligible employee may elect to have his or her compensation reduced by the following percentage or amount per pay period, as designated in writing to the employer. Check appropriate box(es) and fill in the blanks.

1. ☐ An amount not in excess of _____ % (not to exceed 15%) of an eligible employee's compensation.
2. ☐ An amount not in excess of $ _____ .

B. Cash Bonus Option. An eligible employee may base elective deferrals on bonuses that, at the employee's election, may be contributed to the SEP or received in cash during the calendar year. Check if elective deferrals on bonuses may be made to this SEP . . ▶ ☐

C. Timing of Elective Deferrals. No deferral election may be based on compensation an eligible employee received, or had a right to receive, before execution of the deferral election

Article III—SEP Requirements (See instructions.)

The employer agrees that each employee's elective deferrals to the SEP will be:

A. Based only on the first $160,000* of compensation.

B. Limited annually to the smaller of: **(1)** 15% of compensation; **or (2)** $9,500* for 1997 ($10,000* for 1998).

C. Limited further, under section 415, if the employer also maintains another SEP.

D. Paid to the employee's IRA trustee, custodian, or insurance company (for an annuity contract) or, if necessary, an IRA established for an employee by the employer.

E. Made only if at least 50% of the employer's employees eligible to participate elect to have amounts contributed to the SEP. If the 50% requirement is not satisfied as of the end of any calendar year, then all of the elective deferrals made by the employees for that calendar year will be considered "disallowed deferrals," i.e., IRA contributions that are not SEP-IRA contributions.

F. Made only if the employer had 25 or fewer employees eligible to participate at all times during the prior calendar year.

G. Adjusted only if deferrals to this SEP for any calendar year do not meet the "deferral percentage limitation" described on page 3.

Article IV—Excess SEP Contributions (See instructions.)

Elective deferrals by a "highly compensated employee" must satisfy the deferral percentage limitation under section 408(k)(6)(A)(iii). Amounts in excess of this limitation will be deemed excess SEP contributions for the affected highly compensated employee or employees.

Article V—Notice Requirements (See instructions.)

A. The employer will notify each highly compensated employee, by March 15 following the end of the calendar year to which any excess SEP contributions relate, of the excess SEP contributions to the highly compensated employee's SEP-IRA for the applicable year. The notification will specify the amount of the excess SEP, the calendar year in which the contributions are includible in income, and must provide an explanation of applicable penalties if the excess contributions are not withdrawn on time.

B. The employer will notify each employee who makes an elective deferral to a SEP that, until March 15 after the year of the deferral, any transfer or distribution from that employee's SEP-IRA of SEP contributions (or income on these contributions) attributable to elective deferrals made that year will be includible in income for purposes of sections 72(t) and 408(d)(1).

C. The employer will notify each employee by March 15 of each year of any disallowed deferrals to the employee's SEP-IRA for the preceding calendar year. Such notification will specify the amount of the disallowed deferrals and the calendar year in which those deferrals are includible in income and must provide an explanation of applicable penalties if the disallowed deferrals are not withdrawn on time

Article VI—Top-Heavy Requirements (See instructions.)

A. Unless paragraph B below is checked, the employer will satisfy the top-heavy requirements of section 416 by making a minimum contribution each year to the SEP-IRA of each employee eligible to participate in this SEP (other than a key employee as defined in section 416(i)). This contribution, in combination with other nonelective contributions, if any, is equal to the smaller of 3% of each eligible nonkey employee's compensation or a percentage of such compensation equal to the percentage of compensation at which elective and nonelective contributions are made under this SEP (and any other SEP maintained by the employer) for the year for the key employee for whom such percentage is the highest for the year.

B. ☐ The top-heavy requirements of section 416 will be satisfied through contributions to nonkey employees' SEP-IRAs under this employer's nonelective SEP.

* Except where stated otherwise, this amount reflects the cost-of-living increase in effect for 1997 and 1998. The amount is adjusted annually. The IRS announces the increase, if any, in a news release, in the Internal Revenue Bulletin, and on the IRS's Internet Web Site at **www.irs.ustreas.gov.**

Article VI—Top-Heavy Requirements *(Continued)*

C. To satisfy the minimum contribution requirement under section 416, all nonelective SEP contributions will be taken into account but elective deferrals will not be taken into account.

Article VII—Effective Date (See instructions.)

This SEP will be effective upon adoption and establishment of IRAs for all eligible employees.

Employer's signature Date Name and title

Changes To Note

The Small Business Job Protection Act of 1996 ("The Act") made several changes to the laws affecting simplified employee pensions (SEPs). Most importantly, it prohibited the establishment of new elective SEPs after 1996. The Act also repealed the family aggregation rules, under which the compensation and elective deferrals of certain "highly compensated employees" was combined with the compensation and elective deferrals of family members for purposes of determining the compensation and deferral percentages of participants. The definition of "highly compensated employee" was also changed beginning in 1997.

Instructions

Section references are to the Internal Revenue Code unless otherwise noted.

Purpose of Form

Form 5305A-SEP is a model elective simplified employee pension (SEP) used by an employer to permit employees to make elective deferrals to a SEP described in section 408(k). **DO NOT** file this form with the IRS.

Instructions for the Employer

Important. *SEPs permitting elective deferrals **cannot** be established after 1996. If you established a SEP before 1997 that permitted elective deferrals, under current law you may continue to maintain such SEP for years after 1996.*

*If you wish to continue using a model elective SEP, this version of Form 5305A-SEP **must** be adopted by December 31, 1998.*

What Is A SEP?

A SEP is a written arrangement (a plan) that provides you with a simplified way to make contributions towards your employees' retirement income. Under an elective SEP, employees may choose whether or not to make elective deferrals to the SEP or to receive the amounts in cash. If elective deferrals are made, you contribute the amounts deferred by your employees directly into an individual retirement arrangement (IRA) set up by or for each employee with a bank, insurance company, or other qualified financial institution. The IRA, established by or for an employee, must be one for which the IRS has issued a favorable opinion letter or a model IRA published by the Service as **Form 5305,** Individual Retirement Trust Account, or **Form 5305-A,** Individual Retirement Custodial Account. It cannot be a SIMPLE IRA (an IRA designed to accept contributions made under a SIMPLE IRA Plan described in section 408(p)). Adopting Form 5305A-SEP does not establish an employer IRA described in section 408(c).

The information provided below is intended to help you understand and administer the elective deferral rules of your SEP.

When To Use Form 5305A-SEP

Use this form only if you intend to permit elective deferrals to a SEP. If you want to establish a SEP to which nonelective employer contributions may be made, use **Form 5305-SEP,** Simplified Employee Pension—Individual Retirement Accounts Contribution Agreement, or a nonmodel SEP instead of, or in addition to, this form.

Do not use Form 5305A-SEP if you:

1. Have any leased employees as defined in section 414(n)(2).

2. Previously maintained or have maintained a defined benefit plan that is now terminated.

3. Currently maintain any other qualified retirement plan. This does not prevent you from also maintaining a Model SEP (Form 5305-SEP) or other SEP to which either elective or nonelective contributions are made.

4. Have more than 25 employees eligible to participate in the SEP at any time during the prior calendar year. (If you are a member of one of the groups described in paragraph 2 under **Excess SEP Contributions—Deferral Percentage Limitation** on page 3, you may use this SEP only if in the prior year there were never more than 25 employees eligible to participate in this SEP, in total, of all the members of such groups, trades, or businesses. In addition, all eligible employees of all the members of such groups, trades, or businesses must be eligible to make elective deferrals to this SEP).

5. Are a state or local government or a tax-exempt organization.

Completing the Agreement

This SEP agreement is considered adopted when:

1. You have completed all blanks on the form.

2. You have given all eligible employees the following information:

a. A copy of Form 5305A-SEP. (Any individual who in the future becomes eligible to participate in this SEP must be given Form 5305A-SEP, upon becoming an eligible employee.)

b. A statement that IRAs other than the IRAs into which employer SEP contributions will be made may provide different rates of return and different terms concerning, among other things, transfers and withdrawals of funds from the IRAs.

c. A statement that, in addition to the information provided to an employee at the time the employee becomes eligible to participate, the administrator of the SEP must furnish each participant within 30 days of the effective date of any amendment to the SEP, a copy of the amendment and a written explanation of its effects.

d. A statement that the administrator will give written notification to each participant of any employer contributions made under the SEP to that participant's IRA by the later of January 31 of the year following the year for which a contribution is made or 30 days after the contribution is made.

Employers who have established an elective SEP using Form 5305A-SEP and have provided each participant a copy of the completed Form 5305A-SEP and the other documents and disclosures described in **Instructions for the Employer** and **Instructions for the Employee,** are not required to file the annual information returns, Forms 5500, 5500-C/R, or 5500-EZ, for the SEP. However, under Title I of ERISA, this relief from the annual reporting requirements may not be available to an employer who selects, recommends, or influences its employees to choose IRAs into which contributions will be made under the SEP, if those IRAs are subject to provisions that impose any limits on a participant's ability to withdraw funds (other than restrictions imposed by the Code that apply to all IRAs). For additional information on Title I requirements, see the Department of Labor regulations at 29 CFR 2520.104-49.

Forms and Publications You May Use

An employer may need to use any of the following forms or publications:

- **Form W-2,** Wage and Tax Statement.
- **Form 5330,** Return of Excise Taxes Related to Employee Benefit Plans. Employers who are liable for the 10% tax on excess contributions use this form to pay the excise tax.
- **Pub. 560,** Retirement Plans for the Self-Employed.
- **Pub. 590,** Individual Retirement Arrangements (IRAs).

Deducting Contributions

You may deduct, subject to any applicable limits, contributions made to a SEP. This SEP is maintained on a calendar year basis, and contributions to the SEP are deductible for your tax year with or within which the particular calendar year ends. See section 404(h). Contributions made for a particular tax

year and contributed by the due date of your income tax return, including extensions, are deemed made in that tax year and the contributions are deductible if they would otherwise be deductible had they actually been contributed by the end of that tax year. See Rev. Rul. 90-105, 1990-2 C.B. 69. However, the deductibility of your contributions may be limited if the contributions are excess contributions. See **Excess SEP Contributions—Deferral Percentage Limitation** below and the **Deferral Percentage Limitation Worksheet** on page 8

Effective Date

Insert the date the provisions of this agreement are effective. This date will be January 1, 1997, the first time you adopt this version of Form 5305A-SEP to continue to use a model elective SEP.

Eligible Employees

All eligible employees must be allowed to participate in the SEP. An eligible employee is any employee who: **(1)** is at least 21 years old, and **(2)** has performed "service" for you in at least 3 of the immediately preceding 5 years.

Note: *You can establish less restrictive eligibility requirements, but not more restrictive ones.*

Service means any work performed for you for any period of time, however short. If you are a member of an affiliated service group, a controlled group of corporations, or trades or businesses under common control, service includes any work performed for any period of time for any other member of such group, trades, or businesses.

Excludable Employees

The following employees do not have to be covered by the SEP: **(1)** employees covered by a collective bargaining agreement whose retirement benefits were bargained for in good faith by you and their union, **(2)** nonresident alien employees who did not earn U.S. source income from you, and **(3)** employees who received less than $400* in compensation during the year.

Elective Deferrals

You may permit your employees to make elective deferrals through salary reduction or on the basis of bonuses that, at the employee's option, may be contributed to the SEP or received by the employee in cash during the year.

You must inform your employees how they may make, change, or terminate elective deferrals based on either salary reduction or cash bonuses. You must also provide a form on which they may make their deferral elections. You may use the **Model Elective SEP Deferral Form** (elective form) on page 5, or a form that explains the information contained in this form in a way that is written to be understood by the average plan participant.

SEP Requirements

- Elective deferrals may not be based on more than $160,000* of compensation Compensation, for purposes other than the $400* rule (see **Excludable Employees** above), is defined as wages under section 3401(a) for income tax withholding at the source but without regard to any rules that limit the remuneration included in wages based on the nature or location of the employment or the services performed (such as the exception for agricultural labor in section 3401(a)(2)). Compensation also includes earned income under section 401(c)(2). Compensation does not include any employer SEP contributions. Compensation, for purposes of the $400* rule, is the same, except it includes deferrals made to this SEP or under a "cafeteria plan" described in section 125.
- The maximum limit on the amount an employee may elect to defer under this SEP for a year is the smaller of 15% of the employee's compensation or the limitation under section 402(g), as explained below.

Note: *The deferral limit is 15% of compensation (minus any employer SEP contributions). Compute this amount using the following formula: Compensation (before subtracting employer SEP contributions) × 13.0435%.*

- If you make nonelective contributions to this SEP for a calendar year, or maintain any other SEP to which contributions are made for that calendar year, then contributions to all such SEPs may not exceed the smaller of $30,000* or 15% of compensation for any employee.

Excess Elective Deferrals

Section 402(g) limits the maximum amount of compensation an employee may elect to defer under a SEP (and certain other arrangements) during the calendar year. This limit is $9,500* for 1997 ($10,000* for 1998). Amounts deferred for a year in excess of this limit are considered "excess elective deferrals" and are subject to the rules described below.

The limit applies to the **total** elective deferrals the employee makes for the calendar year, from all employers, under the following arrangements:

- Elective SEPs under section 408(k)(6);
- Cash or deferred arrangements under section 401(k);
- Salary reduction arrangements under section 403(b); and
- SIMPLE IRA Plans under section 408(p).

Thus, an employee may have excess elective deferrals even if the amount deferred under this SEP alone does not exceed the section 402(g) limit.

If an employee who elects to defer compensation under this SEP and any other SEP or arrangement has made excess elective deferrals for a calendar year, the employee must withdraw those deferrals by April 15 following the calendar year to which the deferrals relate. Deferrals not withdrawn by April 15 will be subject to the IRA contribution limits of sections 219 and 408 and may be considered excess contributions to the employee's IRA. For the employee, these excess elective deferrals are subject to a 6% tax on excess contributions under section 4973.

Income on excess elective deferrals is includible in the employee's income in the year it is withdrawn from the IRA. The income must be withdrawn by April 15 following the calendar year for which the deferrals were made. If the income is withdrawn after that date and the recipient is not 59½ years of age, it may be subject to the 10% tax on early distributions under section 72(t)

Excess SEP Contributions—Deferral Percentage Limitation

The amount each of your "highly compensated employees" may contribute to an elective deferral SEP is also limited by the "deferral percentage limitation." This is based on the amount of money deferred, on average, by your nonhighly compensated employees. Deferrals made by a highly compensated employee that exceed this deferral percentage limitation for a calendar year are considered "excess SEP contributions" and must be removed from the employee's SEP-IRA, as discussed below.

The deferral percentage limitation for your highly compensated employees is computed by first averaging the "deferral percentages" (defined below) for the eligible nonhighly compensated employees for the year and then multiplying this result by 1.25. The deferral percentage for a calendar year of any highly compensated employee eligible to participate in this SEP may not be more than the resulting product, the "deferral percentage limitation."

Only elective deferrals are included in this computation. Nonelective SEP contributions may not be included. The determination of the deferral percentage for any employee is made under section 408(k)(6).

For purposes of this computation, the calculation of the number and identity of highly compensated employees, and their deferral percentages, is made on the basis of the entire "affiliated employer" (defined below).

A worksheet is provided on page 8 to assist in figuring the deferral percentage. You may want to photocopy it for yearly use.

The following definitions apply for purposes of computing the deferral percentage limitation under this SEP:

1. Deferral percentage is the ratio (expressed as a percentage to 2 decimal places) of an employee's elective deferrals for a calendar year to the employee's compensation for that year. No more than $160,000* per individual is taken into account. The deferral percentage of an employee who is eligible to make an elective deferral, but who does not make a deferral during the year, is zero. If a highly compensated employee also makes elective deferrals under another elective SEP maintained by the employer, then the deferral percentage of that highly compensated employee includes elective deferrals made under the other SEP.

2. Affiliated employer includes **(a)** any corporation that is a member of a controlled group of corporations, described in section 414(b) that includes the employer, **(b)** any trade or business that is under common control, defined in section 414(c) with the employer, **(c)** any organization that is a member of an affiliated service group, defined in section 414(m) that includes the employer, and **(d)** any other entity required to be aggregated with the employer under regulations under section 414(o).

3. A highly compensated employee is an individual described in section 414(q) who:

Except where stated otherwise, this amount reflects the cost-of-living increase in effect for 1997 and 1998. The amount is adjusted annually. The IRS announces the increase, if any, in a news release, in the Internal Revenue Bulletin, and on the IRS's Internet Web Site at* ***www.irs.ustreas.gov.*

a. Was a 5% owner defined in section 416(i)(1)(B)(i) during the current or preceding year; or

b. For the preceding year had compensation in excess of $80,000* and was in the top-paid group (the top 20% of employees, by compensation).

Excess SEP Contributions—Notification

You must notify each affected employee, if any, by March 15 of the amount of any excess SEP contributions made to that employee's SEP-IRA for the preceding calendar year. (If needed, use the model form on page 5 of these instructions.) These excess SEP contributions are includible in the employee's gross income in the preceding calendar year. However, if the excess SEP contributions (not including allocable income) total less than $100, then the excess contributions are includible in the employee's gross income in the calendar year of notification. Income allocable to the excess SEP contributions is includible in gross income in the year of withdrawal from the IRA.

If you do not notify any of your employees by March 15 of an excess SEP contribution, you must pay a 10% tax on the excess SEP contribution for the preceding calendar year. The tax is reported in Part XII of Form 5330. If you do not notify your employees by December 31 of the calendar year following the calendar year in which the excess SEP contributions arose, the SEP no longer will be treated as meeting the rules of section 408(k)(6). In this case, any contribution to an employee's IRA will be subject to the IRA contribution limits of sections 219 and 408 and thus may be considered an excess contribution to the employee's IRA.

Your notification to each affected employee of the excess SEP contributions must specifically state in a manner written to be understood by the average employee:

- The amount of the excess SEP contributions attributable to that employee's elective deferrals;
- The calendar year in which the excess SEP contributions are includible in gross income; and
- Information stating that the employee must withdraw the excess SEP contributions (and allocable income) from the SEP-IRA by April 15 following the calendar year of notification by the employer. Excess contributions not withdrawn by April 15 following the year of notification will be subject to the IRA contribution limits of sections 219 and 408 for the preceding calendar year and may be considered excess contributions to the employee's IRA. For the employee, the excess contributions may be subject to the 6% tax on excess contributions under section 4973. If income allocable to an excess SEP contribution is not withdrawn by April 15 following the calendar year of notification by the employer, the employee may be subject to the 10% tax on early distributions under section 72(t) when withdrawn.

For information on reporting excess SEP contributions, see Notice 87-77, 1987-2 C.B. 385, Notice 88-33, 1988-1 C.B. 513, Notice 89-32, 1989-1 C.B. 671, and Rev. Proc. 91-44, 1991-2 C.B. 733.

To avoid the complications caused by excess SEP contributions, you may want to monitor elective deferrals on a continuing basis throughout the calendar year to insure that the deferrals comply with the limits as they are paid into each employee's SEP-IRA.

Disallowed Deferrals

If you determine at the end of any calendar year that more than half of your eligible employees have chosen **not** to make elective deferrals for that year, then **all** elective deferrals made by your employees for that year will be considered **disallowed deferrals,** i.e., IRA contributions that are not SEP-IRA contributions.

You must notify each affected employee by March 15 that the employee's deferrals for the previous calendar year are no longer considered SEP-IRA contributions. Such disallowed deferrals are includible in the employee's gross income in that preceding calendar year. Income allocable to the disallowed deferrals is includible in the employee's gross income in the year of withdrawal from the IRA.

Your notification to each affected employee of the disallowed deferrals must clearly state:

- The amount of the disallowed deferrals;
- The calendar year in which the disallowed deferrals and earnings are includible in gross income; and
- That the employee must withdraw the disallowed deferrals (and allocable income) from the IRA by April 15 following the calendar year of notification by the employer. Those disallowed deferrals not withdrawn by April 15 following the year of notification will be subject to the IRA contribution limits of sections 219 and 408 and thus may be considered an excess contribution to the employee's IRA. For the employee, these disallowed deferrals may be subject to the 6% tax on excess contributions under section 4973. If income allocable to a disallowed deferral is not withdrawn by April 15 following the calendar year of notification by the employer, the employee may be subject to the 10% tax on early distributions under section 72(t) when withdrawn.

Disallowed deferrals should be reported the same way excess SEP contributions are reported.

Restrictions on Withdrawals

Your highly compensated employees may not withdraw or transfer from their SEP-IRAs any SEP contributions (or income on these contributions) attributable to elective deferrals made for a particular calendar year until March 15 of the following year. Before that date, however, you may notify your employees when the deferral percentage limitation test has been completed for a particular calendar year and that this withdrawal restriction no longer applies. In general, any transfer or distribution made before March 15 of the following year (or notification, if sooner) will be includible in the employee's gross income and the employee may also be subject to a 10% tax on early withdrawal. This restriction does not apply to an employee's excess elective deferrals.

Top-Heavy Requirements

Elective deferrals may not be used to satisfy the minimum contribution requirement under section 416. In any year in which a **key employee** makes an elective deferral, this SEP is deemed top-heavy for purposes of section 416, and you are required to make a minimum top-heavy contribution under either this SEP or another SEP for each nonkey employee eligible to participate in this SEP.

A key employee under section 416(i)(1) is any employee or former employee (and the beneficiaries of these employees) who, at any time during the **determination period,** was:

- An officer of the employer (if the employee's compensation exceeds 50% of the section 415(b)(1)(A) limit, which was $125,000* for 1997 (130,000* for 1998),
- An owner of one of the 10 largest interests in the employer (if the employee's compensation exceeds 100% of the section 415(c)(1)(A) limit, which is $30,000*;
- A 5% owner of the employer, as defined in section 416(i)(1)(B)(i), or
- A 1% owner of the employer (if the employee has compensation in excess of $150,000).

The determination period is the current calendar year and the 4 preceding years.

*Except where stated otherwise, this amount reflects the cost-of-living increase in effect for 1997 and 1998. The amount is adjusted annually. The IRS announces the increase, if any, in a news release, in the Internal Revenue Bulletin, and on the IRS's Internet Web Site at **www.irs.ustreas.gov.***

Model Elective SEP Deferral Form

I. Salary reduction deferral

Subject to the requirements of the Model Elective SEP of _____ (name of employer), I authorize the following amount or percentage to be withheld from each of my paychecks and contributed to my SEP-IRA:

(a) _____ % (not to exceed 15%) of my salary; or **(b)** $ _____

This salary reduction authorization shall remain in effect until I provide written modification or termination of its terms to my employer

II. Cash bonus deferral

Subject to the requirements of the Model Elective SEP of _____ (name of employer), I authorize the following amount to be contributed to my SEP-IRA rather than being paid to me in cash: $ _____.

III. Amount of deferral

I understand that the total amount I defer in any calendar year may not exceed the smaller of:
(a) 15% of my compensation (determined without including any SEP-IRA contributions); or **(b)** $9,500* for 1997 ($10,000* for 1998)

IV. Commencement of deferral

The deferral election specified in either **I** or **II**, above, shall not become effective before _____ (Month, day, year)
(Specify a date no earlier than the first day of the first pay period beginning after this authorization.)

V. Distributions from SEP-IRAs

I understand that I should not withdraw or transfer any amounts from my SEP-IRA that are attributable to elective deferrals and income on elective deferrals for a particular calendar year (except for excess elective deferrals) until March 15 of the subsequent year or, if sooner, when my employer notifies me that the deferral percentage limitation test for that plan year has been completed. Any such amounts that I withdraw or transfer before this time will be includible in income for purposes of sections 72(t) and 408(d)(1).

Signature of employee ► Date ►

This amount is adjusted annually. The IRS announces the increase, if any, in a news release, in the Internal Revenue Bulletin, and on the IRS's Internet Web Site at* ***www.irs.ustreas.gov.*

Notification of Excess SEP Contributions

To: _____ (name of employee)

Our calculations indicate that the elective deferrals you made to your SEP-IRA for calendar year _____ exceed the maximum permissible limits under section 408(k)(6). You made excess SEP contributions of $ _____ for that year.

These excess SEP contributions are includible in your gross income for the _____ (insert the year identified above, or if less than $100, the following year) calendar year.

These excess SEP contributions must be distributed from your SEP-IRA by April 15, 19 _____ (insert year after the calendar year in which this notice is given) in order to avoid possible penalties. Income allocable to the excess amounts must be withdrawn at the same time and is includible in income in the year of withdrawal. Excess SEP contributions remaining in your SEP-IRA account after that time are subject to a 6% excise tax, and the income on these excess SEP contributions may be subject to a 10% penalty when finally withdrawn.

Signature of employer ► Date ►

Instructions for the Employee

The following instructions explain what a simplified employee pension (SEP) is, how contributions to a SEP are made, and how to treat these contributions for tax purposes. For more information, see the SEP agreement on pages 1 and 2 and the **Instructions for the Employer** beginning on page 2.

What Is A SEP?

A SEP is a written arrangement (a plan) that allows an employer to make contributions toward your retirement without becoming involved in more complex retirement plans. A SEP may include a **salary reduction arrangement**, like the one provided on this form. Under this arrangement, you can elect to have your employer contribute part of your pay to your own individual retirement account or annuity (IRA), set up by you or on your behalf with a bank, insurance company, or other qualified financial institution. The part contributed is tax deferred. Only the remaining part of your pay is currently taxable. This type of SEP is available only to an employer with 25 or fewer eligible employees.

The IRA must be one for which the IRS has issued a favorable opinion letter or a model IRA published by the IRS as **Form 5305,** Individual Retirement Trust Account, or **Form 5305-A,** Individual Retirement Custodial Account. It cannot be a SIMPLE IRA (an IRA designed to accept contributions made under a SIMPLE IRA Plan described in section 408(p))

Your employer must provide you with a copy of the SEP agreement containing eligibility requirements and a description of the basis upon which contributions may be made.

All amounts contributed to your IRA belong to you, even after you quit working for your employer.

Forms and Publications You May Use

An employee may use either of the two forms and the publication listed below.

- **Form 5329,** Return for Additional Taxes Attributable to Qualified Retirement Plans (Including IRAs), Annuities, and Modified Endowment Contracts. Use Form 5329 to pay tax on excess contributions and/or tax on early distributions.
- **Form 8606,** Nondeductible IRAs (Contributions, Distributions, and Basis). Use Form 8606 to report nondeductible IRA contributions.
- **Pub. 590,** Individual Retirement Arrangements (IRAs).

Elective Deferrals

Annual Limitation

The maximum amount that you may defer to a SEP for any calendar year is limited to the smaller of 15% of compensation or $9,500* for 1997 ($10,000* for 1998).

The 15% limit may be reduced if your employer also maintains a SEP to which **nonelective contributions** are made for a year. In this case, total contributions on your behalf to all such SEPs may not exceed the smaller of $30,000* or 15% of your compensation. If these limits are exceeded, the amount you may elect to contribute to this SEP for the year will be reduced.

The $9,500* limit for 1997 ($10,000* for 1998), imposed under section 402(g), is an overall limit on the maximum amount that you may defer in each calendar year to all elective SEPs, SIMPLE IRA Plans under section 408(p), and cash or deferred arrangements under section 401(k), regardless of how many employers you may have worked for during the calendar year.

For a **highly compensated employee,** there may be a further limit on the amount you can defer. Figured by your employer and known as the **deferral percentage limitation,** it limits the percentage of pay that a highly compensated employee can elect to defer to a SEP-IRA. Your employer will notify any highly compensated employee who has exceeded the limitation.

Tax Treatment

Elective deferrals that do not exceed the limits discussed above are excluded from your gross income in the year of the deferral. They are not included as taxable wages on **Form W-2,** Wage and Tax Statement. However, elective deferrals are treated as wages for social security, Medicare, and unemployment (FUTA) tax purposes.

Excess Amounts

There are three ways in which you may have excess amounts in an elective SEP-IRA.

1. Making **excess elective deferrals** (i.e., amounts in excess of the section 402(g) limit). You must determine whether you have exceeded the limit in the calendar year. For 1997, the section 402(g) limit for contributions made to an elective SEP is $9,500* ($10,000* for 1998)

2. Highly compensated employees who make **excess SEP contributions** (i.e., amounts in excess of the deferral percentage limitation referred to above). The employer must determine if an employee has made excess SEP contributions.

3. Having **disallowed deferrals** (i.e., more than half of your employer's eligible employees choose not to make elective deferrals for a year). All elective deferrals made by employees for that year are considered disallowed deferrals, as discussed below. Your employer must also determine if there are disallowed deferrals.

Excess Elective Deferrals

Excess elective deferrals are includible in your gross income in the calendar year of deferral. Income earned on the excess elective deferrals is includible in the year of withdrawal from the IRA. You should withdraw excess elective deferrals and any allocable income by April 15 following the year to which the deferrals relate. These amounts **may not** be transferred or rolled over tax-free to another SEP-IRA.

If you do not withdraw excess elective deferrals and any allocable income by April 15, the excess elective deferrals will be subject to the IRA contribution limits of sections 219 and 408 and will be considered excess contributions to your IRA. Such excess deferrals are subject to a 6% excise tax for each year they remain in the SEP-IRA. The excise tax is reported in Part II of Form 5329.

Income earned on excess elective deferrals is includible in your gross income in the year you withdraw it from your IRA. The income should be withdrawn by April 15 following the calendar year in which the deferrals were made. If the income is withdrawn after that date and you are not 59½ years of age, it may be subject to the 10% tax on early distributions. Report the tax in Part I of Form 5329. Also see Pub. 590 for a discussion of exceptions to the age 59½ rule.

Excess SEP Contributions

If you are a **highly compensated employee,** your employer must notify you of any excess SEP contributions you made in a calendar year. This notification should show the amount of the excess SEP contributions, the calendar year to include the contributions in income, and the penalties that may be assessed if the contributions are not withdrawn from your IRA within the applicable time period.

Your employer must notify you of the excess SEP contributions by March 15 following the calendar year for which you made the excess SEP contributions. Generally, you include the excess SEP contributions in income for the calendar year in which you made the original deferrals. This may require you to file an amended individual income tax return. However, any excess SEP contribution less than $100 (not including allocable income) must be included in income in the calendar year of notification. Income earned on these excess contributions must be included in your gross income when you withdraw it from your IRA.

You must withdraw these excess SEP contributions (and allocable income) from your IRA. You may withdraw these amounts without penalty, until April 15 following the calendar year in which you were notified by your employer of the excess SEP contributions. Otherwise, the excess SEP contributions are subject to the IRA contribution limits of sections 219 and 408 and will be considered an excess contribution to your IRA. Thus, the excess SEP contributions are subject to a 6% excise tax reportable in Part II of Form 5329 for each year the contributions remain in your IRA.

If you do not withdraw the income earned on the excess SEP contributions by April 15 following the calendar year of notification by your employer, the income may be subject to a 10% tax on early distributions if you are not 59½ years of age when you withdraw it. Report the tax in Part I of Form 5329. Also see Pub. 590.

If you have both **excess elective deferrals and excess SEP contributions,** the amount of excess elective deferrals that you withdraw by April 15 will reduce any excess SEP contributions that must be withdrawn for the corresponding calendar year.

Disallowed Deferrals

You are not required to make elective deferrals to a SEP-IRA. However, if more than 50% of your employer's eligible employees choose not to make elective deferrals in a calendar year, then no employee may participate for that calendar year. If you make elective deferrals during a year in which this happens, then your deferrals for that year will be "disallowed," and the deferrals will be treated as ordinary IRA contributions (which may be excess IRA contributions) rather than SEP-IRA contributions.

Except where stated otherwise, this amount reflects the cost-of-living increase in effect for 1997 and 1998. The amount is adjusted annually. The IRS announces the increase, if any, in a news release, in the Internal Revenue Bulletin, and on the IRS's Internet Web Site at* ***www.irs.ustreas.gov.*

Disallowed deferrals and any income the deferrals have earned may be withdrawn, without penalty until April 15 following the calendar year in which you are notified of the disallowed deferrals. Amounts left in the IRA after that date will be subject to the same penalties discussed in **Excess SEP Contributions** above.

Income Allocable To Excess Amounts

The rules for determining and allocating income to excess elective deferrals, excess SEP contributions, and disallowed deferrals are the same as those governing regular IRA contributions. The trustee or custodian of your SEP-IRA will inform you of the income allocable to these amounts

Additional Top-Heavy Contributions

If you are not a **key employee,** your employer must make an additional contribution to your SEP-IRA for a year in which the SEP is considered "top heavy." (Your employer can tell you if you are a key employee. Also, see **Top-Heavy Requirements** on page 4 for the definition of a key employee.) This additional contribution will not exceed 3% of your compensation. It may be less if your employer has already made a contribution to your SEP-IRA, and for certain other reasons.

IRA Contribution for SEP Participants

In addition to any SEP amounts, you may contribute the smaller of $2,000 or 100% of your compensation to an IRA. However, the amount of your contribution that you may deduct on your income tax return is subject to various income limits. Get Form 8606. Also, you may want to get Pub. 590.

SEP-IRA Amounts—Rollover or Transfer To Another IRA

If you are a highly compensated employee, you may not withdraw or transfer from your SEP-IRA any SEP contributions (or income on these contributions) attributable to elective deferrals made during the year until March 15 of the following year or, if sooner, at the time your employer notifies you that the deferral percentage limitation test (discussed under **Annual Limitation** on page 6) has been completed for that year. In general, any transfer or distribution made before this time is includible in your gross income and may also be subject to a 10% tax on early distribution. Report this tax in Part I of Form 5329. You may, however, remove excess elective deferrals from your SEP-IRA before this time but you may not roll over or transfer these deferrals to another IRA.

If the restrictions above do not apply, you may withdraw funds from your SEP-IRA and no more than 60 days later place those funds in another IRA, but not in a SIMPLE IRA. This is called a "rollover" and can be done without penalty only once in any 1-year period. However, there are no restrictions on the number of times that you may make "transfers" if you arrange to have these funds transferred between the trustees or the custodians so that you never have possession of the funds.

You may not, however, roll over or transfer excess elective deferrals, excess SEP contributions, or disallowed deferrals from your SEP-IRA to another IRA. These amounts may be reduced only by a distribution to you.

Employer To Provide Information on SEP-IRAs and Form 5305A-SEP

Your employer must give you a copy of the following information:

1. A copy of a completed Form 5305A-SEP, the **Model Elective SEP Deferral Form** (used to defer amounts to the SEP), and, if applicable, a copy of the **Notice of Excess SEP Contributions.** Your employer should also provide you with a statement of any contributions made during the calendar year to your SEP-IRA. Highly compensated employees must also be notified at the time the deferral percentage limitation test is completed.

2. A statement that IRAs other than SEP-IRAs receiving contributions under this SEP may have different rates of return and different terms (e.g., transfers and withdrawals from the IRAs).

3. A statement that the administrator of an amended SEP must furnish to each participant within 30 days of the amendment, a copy of the amendment and an explanation of its effects.

4. A statement that the administrator must notify each participant in writing of any employer contributions to the SEP-IRA. The notification must be made by the later of January 31 following the year of the contribution or 30 days after the contribution is made.

Financial Institution Requirements

The financial institution where your IRA is maintained must provide you with a **disclosure statement** that contains the following information in plain, nontechnical language:

1. The law that relates to your IRA.

2. The tax consequences of various options concerning your IRA.

3. Participation eligibility rules, and rules on the deductibility of retirement savings.

4. Situations and procedures for revoking your IRA, including the name, address, and telephone number of the person designated to receive notice of revocation. (This information must be clearly displayed at the beginning of the disclosure statement.)

5. A discussion of the penalties that may be assessed because of prohibited activities concerning the IRA.

6. Financial disclosure that provides the following information

a. Projects value growth rates of the IRA under various contribution and retirement schedules, or describes the method of computing and allocating annual earnings and charges that may be assessed

b. Describes whether, and for what period, the growth projections are guaranteed, or a statement of earnings rate and the terms on which these projections are based.

c. States the sales commission to be charged in each year expressed as a percentage of $1,000.

In addition, the financial institution must provide you with a financial statement each year. You may want to keep these statements to evaluate your IRA's investment performance and to report IRA distributions for tax purposes.

Paperwork Reduction Act Notice. You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by Code section 6103.

The time needed to complete this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping . . . . 3 hr., 52 min.
Learning about the law or the form . . . . 3 hr., 57 min
Preparing the form . . . . . 50 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001. **DO NOT** send this form to this address. Instead, keep it for your records

Form 5305A-SEP (Rev. 12-97) Page **8**

Deferral Percentage Limitation Worksheet (See instructions on page 3.)

(a) Employee Name	(b) Status H = HCE* O = Other	(c) Compensation (see below)	(d) Deferrals (see below)	(e) Ratio (d) ÷ (c)	(f) Permitted ratio (for HCE* only, see below)	(g) Permitted amount (for HCE* only) (c) × (f)	(h) Excess (for HCE* only) (d) minus (g)
1							
2							
3							
4							
5							
6							
7							
8							
9							
10							
11							
12							
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17							
18							
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21							
22							
23							
24							
25							

* **Highly compensated employee.**—See the definition beginning on page 3.
Column (c). Compensation.—Enter compensation from this employer and any related employers.
Column (d). Deferrals.—Enter all SEP elective deferrals.
Column (f). Permitted ratio.—
A Enter the total of the ratios in column (e) for the employees marked as "O" in column (b) _____
B Divide line A by the number of employees marked as "O" in column (b) _____
C Permitted ratio.—Multiply line B by 1.25 and enter the permitted ratio here _____

Form **5305-S**
(Rev. January 1998)
Department of the Treasury
Internal Revenue Service

SIMPLE Individual Retirement Trust Account

(Under section 408(p) of the Internal Revenue Code)

DO NOT File With the Internal Revenue Service

Name of participant	Date of birth of participant	Social security number

Address of participant	Check if transfer SIMPLE IRA . ▶ ☐ Check if amendment . . . . ▶ ☐

Name of trustee	Address or principal place of business of trustee

The participant whose name appears above is establishing a savings incentive match plan for employees of small employers individual retirement account (SIMPLE IRA) under sections 408(a) and 408(p) to provide for his or her retirement and for the support of his or her beneficiaries after death.

The trustee named above has given the participant the disclosure statement required under Regulations section 1.408-6.

The participant and the trustee make the following agreement:

Article I

The trustee will accept cash contributions made on behalf of the participant by the participant's employer under the terms of a SIMPLE plan described in section 408(p). In addition, the trustee will accept transfers or rollovers from other SIMPLE IRAs of the participant. No other contributions will be accepted by the trustee.

Article II

The participant's interest in the balance in the trust account is nonforfeitable.

Article III

1. No part of the trust funds may be invested in life insurance contracts, nor may the assets of the trust account be commingled with other property except in a common trust fund or common investment fund (within the meaning of section 408(a)(5))

2. No part of the trust funds may be invested in collectibles (within the meaning of section 408(m)) except as otherwise permitted by section 408(m)(3), which provides an exception for certain gold, silver, and platinum coins, coins issued under the laws of any state, and certain bullion

Article IV

1. Notwithstanding any provision of this agreement to the contrary, the distribution of the participant's interest in the trust account shall be made in accordance with the following requirements and shall otherwise comply with section 408(a)(6) and Proposed Regulations section 1.408-8, including the incidental death benefit provisions of Proposed Regulations section 1.401(a)(9)-2, the provisions of which are herein incorporated by reference.

2. Unless otherwise elected by the time distributions are required to begin to the participant under paragraph 3, or to the surviving spouse under paragraph 4, other than in the case of a life annuity, life expectancies shall be recalculated annually. Such election shall be irrevocable as to the participant and the surviving spouse and shall apply to all subsequent years. The life expectancy of a nonspouse beneficiary may not be recalculated.

3. The participant's entire interest in the trust account must be, or begin to be, distributed by the participant's required beginning date, April 1 following the calendar year end in which the participant reaches age 70½. By that date, the participant may elect, in a manner acceptable to the trustee, to have the balance in the trust account distributed in:

(a) A single sum payment.

(b) An annuity contract that provides equal or substantially equal monthly, quarterly, or annual payments over the life of the participant.

(c) An annuity contract that provides equal or substantially equal monthly, quarterly, or annual payments over the joint and last survivor lives of the participant and his or her designated beneficiary.

(d) Equal or substantially equal annual payments over a specified period that may not be longer than the participant's life expectancy.

(e) Equal or substantially equal annual payments over a specified period that may not be longer than the joint life and last survivor expectancy of the participant and his or her designated beneficiary.

4. If the participant dies before his or her entire interest is distributed to him or her, the entire remaining interest will be distributed as follows:

(a) If the participant dies on or after distribution of his or her interest has begun, distribution must continue to be made in accordance with paragraph 3.

(b) If the participant dies before distribution of his or her interest has begun, the entire remaining interest will, at the election of the participant or, if the participant has not so elected, at the election of the beneficiary or beneficiaries, either

(i) Be distributed by the December 31 of the year containing the fifth anniversary of the participant's death, or

(ii) Be distributed in equal or substantially equal payments over the life or life expectancy of the designated beneficiary or beneficiaries starting by December 31 of the year following the year of the participant's death. If, however, the beneficiary is the participant's surviving spouse, then this distribution is not required to begin before December 31 of the year in which the participant would have reached age 70½.

(c) Except where distribution in the form of an annuity meeting the requirements of section 408(b)(3) and its related regulations has irrevocably commenced, distributions are treated as having begun on the participant's required beginning date, even though payments may actually have been made before that date.

(d) If the participant dies before his or her entire interest has been distributed and if the beneficiary is other than the surviving spouse, no additional cash contributions or rollover contributions may be accepted in the account.

Cat. No. 23699N Form **5305-S** (Rev. 1-98)

5. In the case of a distribution over life expectancy in equal or substantially equal annual payments, to determine the minimum annual payment for each year, divide the participant's entire interest in the trust account as of the close of business on December 31 of the preceding year by the life expectancy of the participant (or the joint life and last survivor expectancy of the participant and the participant's designated beneficiary, or the life expectancy of the designated beneficiary, whichever applies). In the case of distributions under paragraph 3, determine the initial life expectancy (or joint life and last survivor expectancy) using the attained ages of the participant and designated beneficiary as of their birthdays in the year the participant reaches age 70½. In the case of a distribution in accordance with paragraph 4(b)(ii), determine life expectancy using the attained age of the designated beneficiary as of the beneficiary's birthday in the year distributions are required to commence.

6. The owner of two or more individual retirement accounts may use the "alternative method" described in Notice 88-38, 1988-1 C.B. 524, to satisfy the minimum distribution requirements described above. This method permits an individual to satisfy these requirements by taking from one individual retirement account the amount required to satisfy the requirement for another.

Article V

1. The participant agrees to provide the trustee with information necessary for the trustee to prepare any reports required under sections 408(i) and 408(l)(2) and Regulations section 1.408-5 and 1.408-6.

2. The trustee agrees to submit reports to the Internal Revenue Service and the participant as prescribed by the Internal Revenue Service.

3. The trustee also agrees to provide the participant's employer the summary description described in section 408(l)(2) unless this SIMPLE IRA is a transfer SIMPLE IRA.

Article VI

Notwithstanding any other articles which may be added or incorporated, the provisions of Articles I through III and this sentence will be controlling. Any additional articles that are not consistent with sections 408(a) and 408(p) and related regulations will be invalid.

Article VII

This agreement will be amended from time to time to comply with the provisions of the Code and related regulations. Other amendments may be made with the consent of the persons whose signatures appear below.

Note: *The following space (Article VIII) may be used for any other provisions you want to add. If you do not want to add any other provisions, draw a line through this space. If you do add provisions, they must comply with applicable requirements of state law and the Internal Revenue Code.*

Article VIII

Participant's signature ..... Date .....

(If an individual other than the participant signs this form for the participant, indicate the individual's relationship to the participant.)

Trustee's signature ..... Date .....

Witness' signature .....

(Use only if signature of the participant or the trustee is required to be witnessed.)

General Instructions

Section references are to the Internal Revenue Code unless otherwise noted.

Purpose of Form

Note: *Users of the December 1996 version of Form 5305-S are not required to use the January 1998 revision of this form.*

Form 5305-S is a model trust account agreement that meets the requirements of sections 408(a) and 408(p) and has been automatically approved by the IRS. An individual retirement account (IRA) is established after the form is fully executed by both the individual (participant) and the trustee. This account must be created in the United States for the exclusive benefit of the participant or his or her beneficiaries.

Individuals may rely on regulations for the Tax Reform Act of 1986 to the extent specified in those regulations.

Do not file Form 5305-S with the IRS. Instead, keep it for your records.

For more information on IRAs, including the required disclosures the trustee must give the participant, see **Pub. 590,** Individual Retirement Arrangements (IRAs).

Definitions

Participant. The participant is the person who establishes the trust account.

Trustee. The trustee must be a bank or savings and loan association, as defined in section 408(n), or any person who has the approval of the IRS to act as trustee.

Transfer SIMPLE IRA

This SIMPLE IRA is a "transfer SIMPLE IRA" if it is not the original recipient of contributions under any SIMPLE plan. The summary description requirements of section 408(l)(2) do not apply to transfer SIMPLE IRAs.

Specific Instructions

Article IV. Distributions made under this article may be made in a single sum, periodic payment, or a combination of both. The distribution option should be reviewed in the year the participant reaches age 70½ to ensure that the requirements of section 408(a)(6) have been met.

Article VIII. Article VIII and any that follow it may incorporate additional provisions that are agreed to by the participant and trustee to complete the agreement. They may include, for example, definitions, investment powers, voting rights, exculpatory provisions, amendment and termination, removal of the trustee, trustee's fees, state law requirements, beginning date of distributions, accepting only cash, treatment of excess contributions, prohibited transactions with the participant, etc. Use additional pages if necessary and attach them to this form.

Note: *Form 5305-S may be reproduced and reduced in size.*

Form **5305-SA**
(Rev. January 1998)
Department of the Treasury
Internal Revenue Service

SIMPLE Individual Retirement Custodial Account

(Under section 408(p) of the Internal Revenue Code)

DO NOT File With the Internal Revenue Service

Name of participant	Date of birth of participant	Social security number
		: :
Address of participant		Check if transfer SIMPLE IRA . ▶ ☐ Check if amendment . . . . ▶ ☐
Name of custodian	Address or principal place of business of custodian	

The participant whose name appears above is establishing a savings incentive match plan for employees of small employers individual retirement account (SIMPLE IRA) under sections 408(a) and 408(p) to provide for his or her retirement and for the support of his or her beneficiaries after death.

The custodian named above has given the participant the disclosure statement required under Regulations section 1.408-6.

The participant and the custodian make the following agreement:

Article I

The custodian will accept cash contributions made on behalf of the participant by the participant's employer under the terms of a SIMPLE plan described in section 408(p). In addition, the custodian will accept transfers or rollovers from other SIMPLE IRAs of the participant. No other contributions will be accepted by the custodian.

Article II

The participant's interest in the balance in the custodial account is nonforfeitable.

Article III

1. No part of the custodial funds may be invested in life insurance contracts, nor may the assets of the custodial account be commingled with other property except in a common trust fund or common investment fund (within the meaning of section 408(a)(5)).

2. No part of the custodial funds may be invested in collectibles (within the meaning of section 408(m)) except as otherwise permitted by section 408(m)(3), which provides an exception for certain gold, silver, and platinum coins, coins issued under the laws of any state, and certain bullion

Article IV

1. Notwithstanding any provision of this agreement to the contrary, the distribution of the participant's interest in the custodial account shall be made in accordance with the following requirements and shall otherwise comply with section 408(a)(6) and Proposed Regulations section 1.408-8, including the incidental death benefit provisions of Proposed Regulations section 1.401(a)(9)-2, the provisions of which are incorporated by reference.

2. Unless otherwise elected by the time distributions are required to begin to the participant under paragraph 3, or to the surviving spouse under paragraph 4, other than in the case of a life annuity, life expectancies shall be recalculated annually. Such election shall be irrevocable as to the participant and the surviving spouse and shall apply to all subsequent years. The life expectancy of a nonspouse beneficiary may not be recalculated.

3. The participant's entire interest in the custodial account must be, or begin to be, distributed by the participant's required beginning date (April 1 following the calendar year end in which the participant reaches age 70½). By that date, the participant may elect, in a manner acceptable to the custodian, to have the balance in the custodial account distributed in:

(a) A single sum payment.

(b) An annuity contract that provides equal or substantially equal monthly, quarterly, or annual payments over the life of the participant

(c) An annuity contract that provides equal or substantially equal monthly, quarterly, or annual payments over the joint and last survivor lives of the participant and his or her designated beneficiary.

(d) Equal or substantially equal annual payments over a specified period that may not be longer than the participant's life expectancy.

(e) Equal or substantially equal annual payments over a specified period that may not be longer than the joint life and last survivor expectancy of the participant and his or her designated beneficiary.

4. If the participant dies before his or her entire interest is distributed to him or her, the entire remaining interest will be distributed as follows:

(a) If the participant dies on or after distribution of his or her interest has begun, distribution must continue to be made in accordance with paragraph 3.

(b) If the participant dies before distribution of his or her interest has begun, the entire remaining interest will, at the election of the participant or, if the participant has not so elected, at the election of the beneficiary or beneficiaries, either

(i) Be distributed by the December 31 of the year containing the fifth anniversary of the participant's death, or

(ii) Be distributed in equal or substantially equal payments over the life or life expectancy of the designated beneficiary or beneficiaries starting by December 31 of the year following the year of the participant's death. If, however, the beneficiary is the participant's surviving spouse, then this distribution is not required to begin before December 31 of the year in which the participant would have reached age 70½.

(c) Except where distribution in the form of an annuity meeting the requirements of section 408(b)(3) and its related regulations has irrevocably commenced, distributions are treated as having begun on the participant's required beginning date, even though payments may actually have been made before that date

(d) If the participant dies before his or her entire interest has been distributed and if the beneficiary is other than the surviving spouse, no additional cash contributions or rollover contributions may be accepted in the account.

Cat. No. 23698C Form **5305-SA** (Rev 1-98)

5. In the case of a distribution over life expectancy in equal or substantially equal annual payments, to determine the minimum annual payment for each year, divide the participant's entire interest in the custodial account as of the close of business on December 31 of the preceding year by the life expectancy of the participant (or the joint life and last survivor expectancy of the participant and the participant's designated beneficiary, or the life expectancy of the designated beneficiary, whichever applies). In the case of distributions under paragraph 3, determine the initial life expectancy (or joint life and last survivor expectancy) using the attained ages of the participant and designated beneficiary as of their birthdays in the year the participant reaches age 70½. In the case of a distribution in accordance with paragraph 4(b)(ii), determine life expectancy using the attained age of the designated beneficiary as of the beneficiary's birthday in the year distributions are required to commence.

6. The owner of two or more individual retirement accounts may use the "alternative method" described in Notice 88-38, 1988-1 C.B. 524, to satisfy the minimum distribution requirements described above. This method permits an individual to satisfy these requirements by taking from one individual retirement account the amount required to satisfy the requirement for another.

Article V

1. The participant agrees to provide the custodian with information necessary for the custodian to prepare any reports required under sections 408(i) and 408(l)(2) and Regulations sections 1.408-5 and 1.408-6.

2. The custodian agrees to submit reports to the Internal Revenue Service and the participant as prescribed by the Internal Revenue Service.

3. The custodian also agrees to provide the participant's employer the summary description described in section 408(l)(2) unless this SIMPLE IRA is a transfer SIMPLE IRA.

Article VI

Notwithstanding any other articles which may be added or incorporated, the provisions of Articles I through III and this sentence will be controlling. Any additional articles that are not consistent with sections 408(a) and 408(p) and the related regulations will be invalid

Article VII

This agreement will be amended from time to time to comply with the provisions of the Code and related regulations. Other amendments may be made with the consent of the persons whose signatures appear below.

Note: *The following space (Article VIII) may be used for any other provisions you want to add. If you do not want to add any other provisions, draw a line through this space. If you do add provisions, they must comply with applicable requirements of state law and the Internal Revenue Code*

Article VIII

Participant's signature ..... Date .....

(If an individual other than the participant signs this form for the participant, indicate the individual's relationship to the participant.)

Custodian's signature ..... Date .....

Witness' signature .....

(Use only if signature of the participant or the custodian is required to be witnessed.)

General Instructions

Section references are to the Internal Revenue Code unless otherwise noted

Purpose of Form

Note: *Users of the December 1996 version of Form 5305-SA are not required to use the January 1998 revision of this form.*

Form 5305-SA is a model custodial account agreement that meets the requirements of sections 408(a) and 408(p) and has been automatically approved by the IRS. An individual retirement account (IRA) is established after the form is fully executed by both the individual (participant) and the custodian. This account must be created in the United States for the exclusive benefit of the participant or his or her beneficiaries.

Individuals may rely on regulations for the Tax Reform Act of 1986 to the extent specified in those regulations.

Do not file Form 5305-SA with the IRS. Instead, keep it for your records.

For more information on IRAs, including the required disclosures the custodian must give the participant, see **Pub. 590,** Individual Retirement Arrangements (IRAs).

Definitions

Participant. The participant is the person who establishes the custodial account.

Custodian. The custodian must be a bank or savings and loan association, as defined in section 408(n), or any person who has the approval of the IRS to act as custodian.

Transfer SIMPLE IRA

This SIMPLE IRA is a "transfer SIMPLE IRA" if it is not the original recipient of contributions under any SIMPLE plan. The summary description requirements of section 408(l)(2) do not apply to transfer SIMPLE IRAs.

Specific Instructions

Article IV. Distributions made under this article may be made in a single sum, periodic payment, or a combination of both. The distribution option should be reviewed in the year the participant reaches age 70½ to ensure that the requirements of section 408(a)(6) have been met.

Article VIII. Article VIII and any that follow it may incorporate additional provisions that are agreed to by the participant and custodian to complete the agreement. They may include, for example, definitions, investment powers, voting rights, exculpatory provisions, amendment and termination, removal of the custodian, custodian's fees, state law requirements, beginning date of distributions, accepting only cash, treatment of excess contributions, prohibited transactions with the participant, etc. Use additional pages if necessary and attach them to this form.

Note: *Form 5305-SA may be reproduced and reduced in size.*

Form **5305-SIMPLE**
(October 1996)
Department of the Treasury
Internal Revenue Service

Savings Incentive Match Plan for Employees of Small Employers (SIMPLE)

(for Use With a Designated Financial Institution)

OMB No. 1545-1502

DO NOT File with the Internal Revenue Service

_____ establishes the following SIMPLE
Name of Employer

plan under section 408(p) of the Internal Revenue Code and pursuant to the instructions contained in this form.

Article I—Employee Eligibility Requirements *(Complete appropriate box(es) and blanks—see instructions.)*

1 General Eligibility Requirements. The Employer agrees to permit salary reduction contributions to be made in each calendar year to the SIMPLE individual retirement account or annuity established at the designated financial institution (SIMPLE IRA) for each employee who meets the following requirements *(select either* **1a** or **1b**):

a ☐ **Full Eligibility.** All employees are eligible.

b ☐ **Limited Eligibility.** Eligibility is limited to employees who are described in both **(i)** and **(ii)** below:

(i) Current compensation. Employees who are reasonably expected to receive at least $ _____ in compensation *(not to exceed $5,000)* for the calendar year.

(ii) Prior compensation. Employees who have received at least $ _____ in compensation *(not to exceed $5,000)* during any _____ calendar year(s) *(insert 0, 1, or 2)* preceding the calendar year.

2 Excludable Employees (OPTIONAL)

☐ The Employer elects to exclude employees covered under a collective bargaining agreement for which retirement benefits were the subject of good faith bargaining.

Article II—Salary Reduction Agreements *(Complete the box and blank, if appropriate—see instructions.)*

1 Salary Reduction Election. An eligible employee may make a salary reduction election to have his or her compensation for each pay period reduced by a percentage. The total amount of the reduction in the employee's compensation cannot exceed $6,000* for any calendar year.

2 Timing of Salary Reduction Elections

a For a calendar year, an eligible employee may make or modify a salary reduction election during the 60-day period immediately preceding January 1 of that year. However, for the year in which the employee becomes eligible to make salary reduction contributions, the period during which the employee may make or modify the election is a 60-day period that includes either the date the employee becomes eligible or the day before

b In addition to the election periods in **2a**, eligible employees may make salary reduction elections or modify prior elections _____ *(If the Employer chooses this option, insert a period or periods (e.g. semi-annually, quarterly, monthly, or daily) that will apply uniformly to all eligible employees.)*

c No salary reduction election may apply to compensation that an employee received, or had a right to immediately receive, before execution of the salary reduction election.

d An employee may terminate a salary reduction election at any time during the calendar year. ☐ If this box is checked, an employee who terminates a salary reduction election not in accordance with **2b** may not resume salary reduction contributions during the calendar year

Article III—Contributions *(Complete the blank, if appropriate—see instructions.)*

1 Salary Reduction Contributions. The amount by which the employee agrees to reduce his or her compensation will be contributed by the Employer to the employee's SIMPLE IRA.

2 Other Contributions

a Matching Contributions

(i) For each calendar year, the Employer will contribute a matching contribution to each eligible employee's SIMPLE IRA equal to the employee's salary reduction contributions up to a limit of 3% of the employee's compensation for the calendar year.

(ii) The Employer may reduce the 3% limit for the calendar year in **(i)** only if:

(1) The limit is not reduced below 1%; **(2)** The limit is not reduced for more than 2 calendar years during the 5-year period ending with the calendar year the reduction is effective; and **(3)** Each employee is notified of the reduced limit within a reasonable period of time before the employees' 60-day election period for the calendar year *(described in* ***Article II, item 2a****)*.

b Nonelective Contributions

(i) For any calendar year, instead of making matching contributions, the Employer may make nonelective contributions equal to 2% of compensation for the calendar year to the SIMPLE IRA of each eligible employee who has at least $ _____ *(not more than $5,000)* in compensation for the calendar year. No more than $160,000* in compensation can be taken into account in determining the nonelective contribution for each eligible employee.

(ii) For any calendar year, the Employer may make 2% nonelective contributions instead of matching contributions only if:

(1) Each eligible employee is notified that a 2% nonelective contribution will be made instead of a matching contribution; and

(2) This notification is provided within a reasonable period of time before the employees' 60-day election period for the calendar year *(described in* ***Article II, item 2a****)*.

3 Time and Manner of Contributions

a The Employer will make the salary reduction contributions (described in **1** above) to the designated financial institution for the IRAs established under this SIMPLE plan no later than 30 days after the end of the month in which the money is withheld from the employee's pay. See instructions.

b The Employer will make the matching or nonelective contributions (described in **2a** and **2b** above) to the designated financial institution for the IRAs established under this SIMPLE plan no later than the due date for filing the Employer's tax return, including extensions, for the taxable year that includes the last day of the calendar year for which the contributions are made.

For Paperwork Reduction Act Notice, see Instructions. Cat. No. 23063F Form **5305-SIMPLE** (10-96)

Article IV—Other Requirements and Provisions

1 **Contributions in General.** The Employer will make no contributions to the SIMPLE IRAs other than salary reduction contributions *(described in* ***Article III, item 1)*** and matching or nonelective contributions *(described in* ***Article III, items 2a*** *and* ***2b).***

2 **Vesting Requirements.** All contributions made under this SIMPLE plan are fully vested and nonforfeitable.

3 **No Withdrawal Restrictions.** The Employer may not require the employee to retain any portion of the contributions in his or her SIMPLE IRA or otherwise impose any withdrawal restrictions.

4 **No Cost Or Penalty For Transfers.** The Employer will not impose any cost or penalty on a participant for the transfer of the participant's SIMPLE IRA balance to another IRA.

5 **Amendments To This SIMPLE Plan.** This SIMPLE plan may not be amended except to modify the entries inserted in the blanks or boxes provided in **Articles I, II, III, VI,** and **VII.**

6 **Effects Of Withdrawals and Rollovers**

a An amount withdrawn from the SIMPLE IRA is generally includible in gross income. However, a SIMPLE IRA balance may be rolled over or transferred on a tax-free basis to another IRA designed solely to hold funds under a SIMPLE plan. In addition, an individual may roll over or transfer his or her SIMPLE IRA balance to any IRA on a tax-free basis after a 2-year period has expired since the individual first participated in a SIMPLE plan. Any rollover or transfer must comply with the requirements under section 408.

b If an individual withdraws an amount from a SIMPLE IRA during the 2-year period beginning when the individual first participated in a SIMPLE plan and the amount is subject to the additional tax on early distributions under section 72(t), this additional tax is increased from 10% to 25%

Article V—Definitions

1 **Compensation**

a **General Definition of Compensation.** Compensation means the sum of the wages, tips, and other compensation from the Employer subject to federal income tax withholding (as described in section 6051(a)(3)) and the employee's salary reduction contributions made under this plan, and, if applicable, elective deferrals under a section 401(k) plan, a SARSEP, or a section 403(b) annuity contract and compensation deferred under a section 457 plan required to be reported by the Employer on Form W-2 (as described in section 6058(a)(8))

b **Compensation for Self-Employed Individuals.** For self-employed individuals, compensation means the net earnings from self-employment determined under section 1402(a) prior to subtracting any contributions made pursuant to this plan on behalf of the individual

2 **Employee.** Employee means a common-law employee of the Employer. The term employee also includes a self-employed individual and a leased employee described in section 414(n) but does not include a nonresident alien who received no earned income from the Employer that constitutes income from sources within the United States.

3 **Eligible Employee.** An eligible employee means an employee who satisfies the conditions in **Article I, item 1** and is not excluded under **Article I, item 2.**

4 **Designated Financial Institution.** A designated financial institution is a trustee, custodian, or insurance company (that issues annuity contracts) for the SIMPLE plan that receives all contributions made pursuant to the SIMPLE plan and deposits those contributions to the SIMPLE IRA of each eligible employee.

Article VI—Procedures for Withdrawal *(The designated financial institution will provide the instructions (to be attached or inserted in the space below) on the procedures for withdrawals of contributions by employees.)*

Article VII—Effective Date

This SIMPLE plan is effective _____ .(See instructions.)

. . . . .

_____ _____

Name of Employer By: Signature Date

_____ _____

Address of Employer Name and title

The undersigned agrees to serve as designated financial institution, receiving all contributions made pursuant to this SIMPLE plan and depositing those contributions to the SIMPLE IRA of each eligible employee as soon as practicable. Upon the request of any participant, the undersigned also agrees to transfer the participant's balance in a SIMPLE IRA established under this SIMPLE plan to another IRA without cost or penalty to the participant.

_____ _____

Name of designated financial institution By: Signature Date

_____ _____

Address Name and title

This amount will be adjusted to reflect any annual cost-of-living increases announced by the IRS.

Model Notification to Eligible Employees

I. Opportunity to Participate in the SIMPLE Plan

You are eligible to make salary reduction contributions to the _____ SIMPLE plan. This notice and the attached summary description provide you with information that you should consider before you decide whether to start, continue, or change your salary reduction agreement.

II. Employer Contribution Election

For the _____ calendar year, the employer elects to contribute to your SIMPLE IRA *(employer must select either (1), (2), or (3))*:

☐ **(1)** A matching contribution equal to your salary reduction contributions up to a limit of 3% of your compensation for the year.

☐ **(2)** A matching contribution equal to your salary reduction contributions up to a limit of _____% *(employer must insert a number from 1 to 3 and is subject to certain restrictions)* of your compensation for the year; or

☐ **(3)** A nonelective contribution equal to 2% of your compensation for the year (limited to $160,000*) if you are an employee who makes at least $ _____ *(employer must insert an amount that is $5,000 or less)* in compensation for the year.

III. Administrative Procedures

If you decide to start or change your salary reduction agreement, you must complete the salary reduction agreement and return it to _____ *(employer should designate a place or individual)* by _____ *(employer should insert a date that is not less than 60 days after notice is given).*

Model Salary Reduction Agreement

I. Salary Reduction Election

Subject to the requirements of the SIMPLE plan of _____ *(name of employer)* I authorize _____ % or

$ _____ (which equals _____ % of my current rate of pay)

to be withheld from my pay for each pay period and contributed to my SIMPLE IRA as a salary reduction contribution.

II. Maximum Salary Reduction

I understand that the total amount of my salary reduction contributions in any calendar year cannot exceed $6,000.*

III. Date Salary Reduction Begins

I understand that my salary reduction contributions will start as soon as permitted under the SIMPLE plan and as soon as administratively feasible or, if later, _____. *(Fill in the date you want the salary reduction contributions to begin. The date must be after you sign this agreement.)*

IV. Duration of Election

This salary reduction agreement replaces any earlier agreement and will remain in effect as long as I remain an eligible employee under the SIMPLE plan or until I provide my employer with a request to end my salary reduction contributions or provide a new salary reduction agreement as permitted under this SIMPLE plan.

Signature of employee _____

Date _____

This amount will be adjusted to reflect any annual cost-of-living increases announced by the IRS.

Section references are to the Internal Revenue Code unless otherwise noted

Paperwork Reduction Act Notice

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping . . . . 3 hr., 38 min.
Learning about the law or the form . . . . 2 hr., 26 min.
Preparing the form. . . . . 47 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001. **DO NOT** send this form to this address. Instead, keep it for your records.

General Instructions

Note: *The instructions for this form are designed to assist in the establishment and administration of the SIMPLE plan; they are* ***not*** *intended to supersede any provisions in the SIMPLE plan.*

Purpose of Form

Form 5305-SIMPLE is a model Savings Incentive Match Plan for Employees of Small Employers (SIMPLE) plan document that an employer may use in combination with SIMPLE IRAs to establish a SIMPLE plan described in section 408(p). It is important that you keep this form for your records. **DO NOT** file this form with the IRS. For more information, see **Pub. 560,** Retirement Plans for the Self-Employed, and **Pub. 590,** Individual Retirement Arrangements (IRAs).

Instructions for the Employer

Which Employers May Establish and Maintain a SIMPLE Plan?

You are eligible to establish and maintain a SIMPLE plan only if you meet both of the following requirements:

1. Last calendar year, you had no more than 100 employees (including self-employed individuals) who earned $5,000 or more in compensation from you during the year. If you have a SIMPLE plan but later exceed this 100-employee limit, you will be treated as meeting the limit for the two years following the calendar year in which you last satisfied the limit. If the failure to continue to satisfy the 100-employee limit is due to an acquisition or similar transaction involving your business, special rules apply. Consult your tax advisor to find out if you can still maintain the plan after the transaction.

2. You do not maintain during any part of the calendar year another qualified plan with respect to which contributions are made, or benefits are accrued, for service in the calendar year. For this purpose, a qualified plan (defined in section 219(g)(5)) includes a qualified pension plan, a profit-sharing plan, a stock bonus plan, a qualified annuity plan, a tax-sheltered annuity plan, and a simplified employee pension (SEP) plan.

Certain related employers (trades or businesses under common control) must be treated as a single employer for purposes of the SIMPLE requirements. These are: **(1)** a controlled group of corporations under section 414(b); **(2)** a partnership or sole proprietorship under common control under section 414(c); or **(3)** an affiliated service group under section 414(m). In addition, if you have leased employees required to be treated as your own employees under the rules of section 414(n), then you must count all such leased employees for the requirements listed above.

What is a SIMPLE Plan?

A SIMPLE plan is a written arrangement that provides you and your employees with a simplified way to make contributions to provide retirement income for your employees. Under a SIMPLE plan, employees may choose whether to make salary reduction contributions to the SIMPLE plan rather than receiving these amounts as part of their regular compensation. In addition, you will contribute matching or nonelective contributions on behalf of eligible employees (see **Employee Eligibility Requirements** below and **Contributions** on page 5). All contributions under this plan will be deposited into a SIMPLE individual retirement account or annuity established for each eligible employee with the designated financial institution named in Article VII (SIMPLE IRA).

The information provided below is intended to help you understand and administer the rules of your SIMPLE plan.

When to Use Form 5305-SIMPLE

A SIMPLE plan may be established by using this Model Form or any other document that satisfies the statutory requirements. Thus, you are not required to use Form 5305-SIMPLE to establish and maintain a SIMPLE plan. Further, do not use Form 5305-SIMPLE if:

1. You do not want to require that all SIMPLE plan contributions initially go to a financial institution designated by you. (e.g., you want to permit each of your eligible employees to choose a financial institution that will initially receive contributions.);

2. You want employees who are nonresident aliens receiving no earned income from you that constitutes income from sources within the United States to be eligible under this plan; or

3. You want to establish a SIMPLE 401(k) plan.

Completing Form 5305-SIMPLE

Pages 1 and 2 of Form 5305-SIMPLE contain the operative provisions of your SIMPLE plan. This SIMPLE plan is considered adopted when you have completed all appropriate boxes and blanks and it has been executed by you and the designated financial institution.

The SIMPLE plan is a legal document with important tax consequences for you and your employees. You may want to consult with your attorney or tax advisor before adopting this plan.

Employee Eligibility Requirements (Article I)

Each year for which this SIMPLE plan is effective, you must permit salary reduction contributions to be made by all of your employees who are reasonably expected to receive at least $5,000 in compensation from you during the year, and who received at least $5,000 in compensation from you in any 2 preceding years. However, you can expand the group of employees who are eligible to participate in the SIMPLE plan by completing the options provided in Article I, items 1a and 1b. To choose full eligibility, check the box in Article I, item 1a. Alternatively, to choose limited eligibility, check the box in Article I, item 1b, and then insert $5,000 or a lower compensation amount (including zero) and 2 or a lower number of years of service in the blanks in (i) and (ii) of Article I, item 1b.

In addition, you can exclude from participation those employees covered under a collective bargaining agreement for which retirement benefits were the subject of good faith bargaining. You may do this by checking the box in Article I, item 2.

Salary Reduction Agreements (Article II)

As indicated in Article II, item 1, a salary reduction agreement permits an eligible employee to make a salary reduction election to have his or her compensation for each pay period reduced by a percentage (expressed as a percentage or dollar amount). The total amount of the reduction in the employee's compensation cannot exceed $6,000* for any calendar year.

Timing of Salary Reduction Elections

For a calendar year, an eligible employee may make or modify a salary reduction election during the 60-day period immediately preceding January 1 of that year. However, for the year in which the employee becomes eligible to make salary reduction contributions, the period during which the employee may make or modify the election is a 60-day period that includes either the date the employee becomes eligible or the day before.

You can extend the 60-day election periods to provide additional opportunities for eligible employees to make or modify salary reduction elections using the blank in Article II, item 2b. For example, you can provide that eligible employees may make new salary reduction elections or modify prior elections for any calendar quarter during the 30 days before that quarter.

You may use (but are not required to) the **Model Salary Reduction Agreement** on page 3 to enable eligible employees to make or modify salary reduction elections.

Employees must be permitted to terminate their salary reduction elections at any time. They may resume salary reduction contributions if permitted under Article II, item 2b. However, by checking the box in Article II, item 2d, you may prohibit an employee who terminates a salary reduction election outside the normal election cycle from resuming salary reduction contributions during the remainder of the calendar year.

Contributions (Article III)

Only contributions described below may be made to this SIMPLE plan. No additional contributions may be made.

Salary Reduction Contributions

As indicated in Article III, item 1, salary reduction contributions consist of the amount by which the employee agrees to reduce his or her compensation. You must contribute the salary reduction contributions to the designated financial institution for the employee's SIMPLE IRA

Other Contributions

Matching Contributions

In general, you must contribute a matching contribution to each eligible employee's SIMPLE IRA equal to the employee's salary reduction contributions. This matching contribution cannot exceed 3% of the employee's compensation. See **Definition of Compensation,** below.

You may reduce this 3% limit to a lower percentage, but not lower than 1%. You cannot lower the 3% limit for more than 2 calendar years out of the 5-year period ending with the calendar year the reduction is effective.

Note: *If any year in the 5-year period described above is a year before you first established any SIMPLE plan, you will be treated as making a 3% matching contribution for that year for purposes of determining when you may reduce the employer matching contribution.*

In order to elect this option, you must notify the employees of the reduced limit within a reasonable period of time before the applicable 60-day election periods for the year. See **Timing of Salary Reduction Elections** above.

Nonelective contributions.—Instead of making a matching contribution, you may, for any year, make a nonelective contribution equal to 2% of compensation for each eligible employee who has at least $5,000 in compensation for the year. Nonelective contributions may not be based on more than $160,000* of compensation.

In order to elect to make nonelective contributions, you must notify employees within a reasonable period of time before the applicable 60-day election periods for such year. See **Timing of Salary Reduction Elections** above.

Note: *Insert $5,000 in Article III, item 2b(i) to impose the $5,000 compensation requirement. You may expand the group of employees who are eligible for nonelective contributions by inserting a compensation amount lower than $5,000.*

Effective Date (Article VII)

Insert in Article VII, the date you want the provisions of the SIMPLE plan to become effective. You must insert January 1 of the applicable year unless this is the first year for which you are adopting any SIMPLE plan. If this is the first year for which you are adopting a SIMPLE plan, you may insert any date between January 1 and October 1, inclusive of the applicable year. Do not insert any date before January 1, 1997.

Other Important Information About Your SIMPLE Plan

Timing of Salary Reduction Contributions

Under the Internal Revenue Code, for all SIMPLE plans, the employer must make the salary reduction contributions to the designated financial institution for the SIMPLE IRAs of all eligible employees no later than the 30th day of the month following the month in which the amounts would otherwise have been payable to the employee in cash. The Department of Labor has indicated that most SIMPLE plans are also subject to Title I of the Employee Retirement Income Security Act of 1974 (ERISA). The Department of Labor has informed the IRS that, as a matter of enforcement policy, for these plans, salary reduction contributions must be made to the SIMPLE IRA at the designated financial institution as of the earliest date on which those contributions can reasonably be segregated from the employer's general assets, but in no event later than the 30-day deadline described above.

Definition of Compensation

"Compensation" means the amount described in section 6051(a)(3) (wages, tips, and other compensation from the employer subject to federal income tax withholding under section 3401(a)). Usually, this is the amount shown in box 1 of **Form W-2,** Wage and Tax Statement. For further information, see **Pub. 15** (Circular E), Employer's Tax Guide. Compensation also includes the salary reduction contributions made under this plan, and, if applicable, compensation deferred under a section 457 plan. In determining an employee's compensation for prior years, the employee's elective deferrals under a section 401(k) plan, a SARSEP, or a section 403(b) annuity contract are also included in the employee's compensation.

For self-employed individuals, compensation means the net earnings from self-employment determined under section 1402(a) prior to subtracting any contributions made pursuant to this SIMPLE plan on behalf of the individual.

Employee Notification

You must notify eligible employees prior to the employees' 60-day election period described above that they can make or change salary reduction elections. In this notification, you must indicate whether you will provide:

*This amount will be adjusted to reflect any annual cost-of-living increases announced by the IRS

1. A matching contribution equal to your employees' salary reduction contributions up to a limit of 3% of their compensation;

2. A matching contribution equal to your employees' salary reduction contributions subject to a percentage limit that is between 1 and 3% of their compensation; or

3. A nonelective contribution equal to 2% of your employees' compensation.

You can use the **Model Notification to Eligible Employees** on page 3 to satisfy these employee notification requirements for this SIMPLE plan. A **Summary Description** must also be provided to eligible employees at this time. This summary description requirement may be satisfied by providing a completed copy of pages 1 and 2 of Form 5305-SIMPLE (including the Article IV Procedures for Withdrawals and transfers from the SIMPLE IRAs established under this SIMPLE plan).

If you fail to provide the employee notification (including the summary description) described above, you will be liable for a penalty of $50 per day until the notification is provided. If you can show that the failure was due to reasonable cause, the penalty will not be imposed.

Reporting Requirements

You are not required to file any annual information returns for your SIMPLE plan, such as Forms 5500, 5500-C/R, or 5500-EZ. However, you must report to the IRS which eligible employees are active participants in the SIMPLE plan and the amount of your employees' salary reduction contributions to the SIMPLE plan on Form W-2. These contributions are subject to social security, medicare, railroad retirement, and federal unemployment tax.

Deducting Contributions

Contributions to this SIMPLE plan are deductible in your tax year containing the end of the calendar year for which the contributions are made.

Contributions will be treated as made for a particular tax year if they are made for that year and are made by the due date (including extensions) of your income tax return for that year.

Choosing the Designated Financial Institution

As indicated in Article V, item 4, a designated financial institution is a trustee, custodian, or insurance company (that issues annuity contracts) for the SIMPLE plan that would receive all contributions made pursuant to the SIMPLE plan and deposit the contributions to the SIMPLE IRA of each eligible employee.

Only certain financial institutions, such as banks, savings & loan associations, insured credit unions, insurance companies (that issue annuity contracts), or IRS-approved nonbank trustees may serve as a designated financial institution under a SIMPLE plan.

You are not required to choose a designated financial institution for your SIMPLE plan. However, if you do not want to choose a designated financial institution, you cannot use this form (See **When to Use Form 5305-SIMPLE** on page 4).

Instructions for the Designated Financial Institution

Completing Form 5305-SIMPLE

By completing Article VII, you have agreed to be the designated financial institution for this SIMPLE plan. You agree to maintain IRAs on behalf of all individuals receiving contributions under the plan and to receive all contributions made pursuant to this plan and to deposit those contributions to the SIMPLE IRAs of each eligible employee as soon as practicable. You also agree that upon the request of a participant, you will transfer the participant's balance in a SIMPLE IRA to another IRA without cost or penalty to the participant.

Summary Description

Each year the SIMPLE plan is in effect, you must provide the employer the information described in section 408(l)(2)(B). This requirement may be satisfied by providing the employer a current copy of Form 5305-SIMPLE (including instructions) together with your procedures for withdrawals and transfers from the SIMPLE IRAs established under this SIMPLE plan. The summary description must be received by the employer in sufficient time to comply with the **Employee Notification** requirements on page 5.

If you fail to provide the summary description described above, you will be liable for a penalty of $50 per day until the notification is provided. If you can show that the failure was due to reasonable cause, the penalty will not be imposed.

Form **5329**

Department of the Treasury
Internal Revenue Service

Additional Taxes Attributable to IRAs, Other Qualified Retirement Plans, Annuities, Modified Endowment Contracts, and MSAs

(Under Sections 72, 530, 4973, and 4974 of the Internal Revenue Code)
► Attach to Form 1040. See separate instructions.

OMB No 1545-0203

1998

Attachment Sequence No **29**

Name of individual subject to additional tax. (If married filing jointly, see page 2 of the instructions.) | **Your social security number**

Fill in Your Address Only If You Are Filing This Form by Itself and Not With Your Tax Return

Home address (number and street), or P.O. box if mail is not delivered to your home | Apt. no

City, town or post office, state, and ZIP code | If this is an amended return, check here ► ☐

If you are subject to the 10% tax on early distributions **only,** see **Who Must File** in the instructions before continuing. You may be able to report this tax directly on Form 1040 without filing Form 5329.

Part I Tax on Early Distributions

Complete this part if a taxable distribution was made from your qualified retirement plan (including an IRA other than an education (Ed) IRA), annuity contract, or modified endowment contract before you reached age 59½ (or was incorrectly indicated as such on your Form 1099-R—see instructions). ***Note:*** *You must include the amount of the distribution on line 15b or 16b of Form 1040.*

1	Early distributions included in gross income (see page 3 of the instructions)	1	
2	Distributions excepted from additional tax (see page 3 of the instructions). Enter appropriate exception number from instructions ► _____	2	
3	Amount subject to additional tax. Subtract line 2 from line 1	3	
4	**Tax due.** Multiply line 3 by 10% (.10). Enter here and on Form 1040, line 53	4	

Caution: *If any amount on line 3 was a distribution from a SIMPLE retirement plan, you must multiply that distribution by 25% (.25) instead of 10%. See instructions for more information.*

Part II Tax on Distributions From Ed IRAs Not Used for Educational Expenses

Complete this part if a distribution was made from your Ed IRA and was not used for educational expenses.
Note: *You must include the amount of the distribution on line 15b of Form 1040.*

5	Taxable amount from line 29 of Form 8606	5	
6	Distributions excepted from additional tax (see page 4 of the instructions)	6	
7	Amount subject to additional tax. Subtract line 6 from line 5	7	
8	**Tax due.** Multiply line 7 by 10% (.10). Enter here and on Form 1040, line 53	8	

Part III Tax on Excess Contributions to Traditional IRAs

Complete this part if, either in this year or in earlier years, you contributed more to your traditional IRAs than is or was allowable and you have an excess contribution subject to tax.

9	Excess contributions for 1998 (see page 4 of the instructions). Do not include this amount on Form 1040, line 23			9	
10	Earlier year excess contributions not previously eliminated (see page 4 of the instructions)	10			
11	Contribution credit. If your actual contribution for 1998 is less than your maximum allowable contribution, see page 4 of the instructions; otherwise, enter -0-	11			
12	1998 distributions from your traditional IRA accounts that are includible in taxable income	12			
13	1997 tax year excess contributions (if any) withdrawn after the due date (including extensions) of your 1997 income tax return, and 1996 and earlier tax year excess contributions withdrawn in 1998	13			
14	Add lines 11, 12, and 13	14			
15	Adjusted earlier year excess contributions. Subtract line 14 from line 10. Enter the result, but not less than zero			15	
16	Total excess contributions. Add lines 9 and 15			16	
17	**Tax due.** Enter the **smaller** of 6% (.06) of line 16 or 6% (.06) of the value of your traditional IRAs on the last day of 1998. Also enter this amount on Form 1040, line 53			17	

Part IV Tax on Excess Contributions to Roth IRAs

18	Excess contributions for 1998 (see page 5 of the instructions)	18	
19	**Tax due.** Enter the **smaller** of 6% (.06) of line 18 or 6% (.06) of the value of your Roth IRAs on the last day of 1998. Also enter this amount on Form 1040, line 53	19	

For Paperwork Reduction Act Notice, see page 6 of separate instructions. Cat. No. 13329Q Form **5329** (1998)

Form 5329 (1998) Page 2

Part V Tax on Excess Contributions to Ed IRAs

20	Excess contributions for 1998 (see page 5 of the instructions)	20	
21	**Tax due.** Enter the **smaller** of 6% (.06) of line 20 or 6% (.06) of the value of your Ed IRAs on the last day of 1998. Also enter this amount on Form 1040, line 53	21	

Part VI Tax on Excess Contributions to Medical Savings Accounts (MSAs)

Complete this part if, either in 1998 or 1997, you or your employer contributed more to your MSAs than is or was allowable and you have an excess contribution subject to tax.

22	Excess contributions for 1998 (see page 5 of the instructions). Do not include this amount on Form 1040, line 25			22	
23	1997 excess contributions not previously eliminated (see page 5 of the instructions)	23			
24	Contribution credit. If your actual contribution for 1998 is less than your maximum allowable contribution, see page 6 of the instructions; otherwise, enter -0-	24			
25	1998 distributions from your MSA account(s) that are includible in taxable income	25			
26	1997 tax year excess contributions (if any) withdrawn in 1998 after the due date (including extensions) of your 1997 income tax return	26			
27	Add lines 24, 25, and 26	27			
28	Adjusted 1997 excess contributions. Subtract line 27 from line 23. Enter the result, but not less than zero			28	
29	Total excess contributions. Add lines 22 and 28			29	
30	**Tax due.** Enter the **smaller** of 6% (.06) of line 29 or 6% (.06) of the value of your MSAs on the last day of 1998. Also enter this amount on Form 1040, line 53			30	

Part VII Tax on Excess Accumulation in Qualified Retirement Plans

Complete this part if you did not receive the minimum required distribution from your qualified retirement plan (including an IRA other than an Ed IRA or Roth IRA).

31	Minimum required distribution (see page 6 of the instructions)	31	
32	Amount actually distributed to you	32	
33	Subtract line 32 from line 31. If line 32 is more than line 31, enter -0-	33	
34	**Tax due.** Multiply line 33 by 50% (.50). Enter here and on Form 1040, line 53	34	

Signature. *Complete **ONLY** if you are filing this form by itself and not with your tax return.*

Please Sign Here

Under penalties of perjury, I declare that I have examined this form, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature ▶ Date ▶

Paid Preparer's Use Only

Preparer's signature ▶	Date	Check if self-employed ▶ ☐	Preparer's social security no
Firm's name (or yours, if self-employed) and address ▶		EIN ▶	
		ZIP code ▶	

Form **8606**

Department of the Treasury
Internal Revenue Service (99)

Nondeductible IRAs

▶ See separate instructions.

▶ Attach to Form 1040, Form 1040A, or Form 1040NR.

OMB No 1545-1007

1998

Attachment Sequence No **48**

Name. If married, file a separate Form 8606 for each spouse who is required to file Form 8606. See page 4 of the instructions. | Your social security number

Fill in Your Address Only if You Are Filing This Form by Itself and Not With Your Tax Return

Home address (number and street, or P.O. box if mail is not delivered to your home) | Apt. no.

City, town or post office, state, and ZIP code

Part I Traditional IRAs (Nondeductible Contributions, Distributions, and Basis)

Caution: *If you converted part or all of your traditional IRAs to Roth IRAs in 1998, see the instructions for Part II on page 5 before making entries in Part I.*

1	Enter your nondeductible contributions to traditional IRAs for 1998, including those made during 1/1/99–4/15/99 that were for 1998. See page 4	1	
2	Enter your total IRA basis for 1997 and earlier years. See page 5	2	
3	Add lines 1 and 2	3	
	Did you receive any distributions (withdrawals) from traditional IRAs in 1998? — **No** ▶ Enter the amount from line 3 on line 12. Do not complete the rest of Part I. — **Yes** ▶ Go to line 4.		
4	Enter only those contributions included on line 1 that were made during 1/1/99–4/15/99. See page 5	4	
5	Subtract line 4 from line 3	5	
6	Enter the total value of **ALL** your traditional IRAs as of 12/31/98 plus any outstanding rollovers. See page 5	6	
7	Enter the total distributions you received from traditional IRAs during 1998. Do not include amounts rolled over. See page 5	7	
8	Add lines 6 and 7	8	
9	Divide line 5 by line 8 and enter the result as a decimal (rounded to at least 3 places). Do not enter more than "1.000"	9 × .	
10	Multiply line 7 by line 9. This is the amount of your nontaxable distributions for 1998	10	
11	Subtract line 10 from line 5. This is the basis in your traditional IRA(s) as of 12/31/98	11	
12	Add lines 4 and 11. This is your **total basis in traditional IRAs for 1998 and earlier years**	12	
13	**Taxable amount.** Subtract line 10 from line 7. Enter the result here. Also include it in the total on Form 1040, line 15b; Form 1040A, line 10b; or Form 1040NR, line 16b	13	

Part II Conversions from Traditional IRAs to Roth IRAs

Before you begin, see page 5 if: **(1)** your filing status is married filing separately, **(2)** your modified AGI is more than $100,000, **(3)** you converted only part of your traditional IRAs to Roth IRAs, or **(4)** you received any distributions (withdrawals) from traditional IRAs during 1998.

14a	Enter the total amount of distributions from traditional IRAs during 1998 that were converted to Roth IRAs	14a	
b	Recharacterizations. See page 3	14b	
c	Subtract line 14b from line 14a	14c	
15	Enter your basis in the amount you entered on line 14c. See pages 5 and 6	15	
16	**Taxable amount of conversions.** Subtract line 15 from line 14c	16	
17	**Amount subject to tax in 1998.** Check here if you elect **NOT** to spread the taxable amount on line 16 over 4 years (see page 6) ▶ ☐		
	If you checked the box, enter the amount from line 16 on line 17. Otherwise, enter 25% (0.25) of line 16 on line 17. Include the line 17 amount in the total on Form 1040, line 15b; Form 1040A, line 10b; or Form 1040NR, line 16b	17	

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Part III Distributions from Roth IRAs

18	Enter the total Roth IRA distributions (withdrawals) received in 1998. Do not include amounts rolled over within 60 days of receipt. See page 6		18	
19a	Enter your Roth IRA contributions for 1998, including those made during 1/1/99–4/15/99 that were for 1998. Do not include rollover contributions or amounts converted from traditional IRAs	19a		
b	Recharacterizations. See page 3	19b		
c	Combine lines 19a and 19b		19c	
20	Subtract line 19c from line 18. If zero or less, enter -0- and do not complete the rest of Part III		20	
21	Subtract line 17 from line 16		21	
22	Enter the smaller of line 20 or line 21		22	
23	Subtract line 22 from line 20. If zero, skip lines 24 and 25, and go to line 26		23	
24	Enter the sum of lines 15 and 17		24	
25	Subtract line 24 from line 23. If zero or less, enter -0-		25	
26	**Taxable amount.** Add lines 22 and 25. Enter the result here and include it in the total on Form 1040, line 15b; Form 1040A, line 10b; or Form 1040NR, line 16b **Note:** *If you have an amount on line 22 or 25, you will be subject to an additional 10% tax. See page 6 for details.*		26	

Part IV Distributions from Education (Ed) IRAs

Before you begin, see page 6 if **(1)** the total Ed IRA contributions made for 1998 on behalf of the beneficiary are more than $500, or **(2)** the beneficiary had more than one Ed IRA account for 1998.

27	Enter the total Ed IRA distributions (withdrawals) received in 1998. Do not include amounts rolled over within 60 days of receipt	27	
28	Do you choose to waive any exclusion you may be entitled to for your 1998 qualified higher education expenses (see page 7 before answering)? **Yes.** Check here ▶ ☐ and enter -0-. **No.** Enter your qualified higher education expenses for 1998.	28	
29	**Taxable amount.** Is line 28 equal to or more than line 27? **Yes.** Enter -0-; none of your Ed IRA distributions are taxable for 1998. **No.** Enter the total of the amounts from line 14 of the worksheet on page 7 for each of your Ed IRA accounts. Also include this amount in the total on Form 1040, line 15b; Form 1040A, line 10b; or Form 1040NR, line 16b. **Note:** *If you have a taxable amount on line 29, you may be subject to an additional 10% tax. See page 7 for details, including exceptions to the additional tax.*	29	

Sign Here Only if You Are Filing This Form by Itself and Not With Your Tax Return

Under penalties of perjury, I declare that I have examined this form, including accompanying attachments, and to the best of my knowledge and belief, it is true, correct, and complete.

Your signature ▶ Date

Appendix E

SELECTED STATE LAWS ON IRAS

STATE INCOME TAXES AND IRAS

A few states have no personal income tax or an income tax of limited scope (e.g., on interest and dividends only). Many states base their income tax on federal adjusted gross income. Many states have specific provisions dealing with the deductibility of contributions to an IRA, or the taxation of accumulations in IRAs or distributions from IRAs. A number of states have specific exemptions or exclusions for certain IRA or retirement plan distributions.

Based on Internal Revenue Code sections, 408 IRAs include traditional IRAs, SEP IRAs (including SAR-SEP IRAs), and SIMPLE IRAs; 408A IRAs include Roth IRAs; and 530 IRAs include Education IRAs.

A survey of state income taxes and IRAs follows.

STATE INCOME TAXES AND IRAS	
Alabama Code of Ala. (1975) §§40-18-15, 40-18-25	all (408, 408A, 530) IRAs exempt from income tax; deduction allowed for contributions to traditional IRAs
Alaska	no personal income tax
Arizona ARS §43-1022	distributions from 408 IRAs deducted from Arizona gross income to extent of contributions included in Arizona gross income prior to 1976
Arkansas AC 1987 §26-51-414	adopts 219, 408 and 408A: deduction allowed for contributions to 408 IRAs; 408 and 408A IRAs exempt from income tax; distributions from 408 and 408A IRAs follow federal law
California Rev. & T. Code §§17203, 17507, 17507.6, 17508	deduction allowed for contributions to traditional IRAs; earnings on 408 IRA contributions not taxable until distributed; distributions from Roth IRA generally follow federal law

STATE INCOME TAXES AND IRAS (cont'd)	
Colorado CRS §39-22-104	deduction allowed for distributions (which are not premature) from individual retirement arrangements to an individual at least 55 years old which are includable in federal adjusted gross income, limited to $20,000 per year in aggregate for distributions from all retirement benefits
Connecticut CGSA §12-701	federal adjusted gross income
Delaware 30 Del. C. §1106	federal adjusted gross income
Dist. of Columbia DC Code §47-1803.2	federal adjusted gross income
Florida	no income tax
Georgia GCA §48-7-27	federal adjusted gross income, with exclusion for taxpayer 62 years or older or disabled for $13,000 of retirement income from any source
Hawaii HRS §235-2.4	deduction allowed for contributions to traditional IRAs
Idaho IC §63-3011A	federal adjusted gross income
Illinois 35 ILCS 5/203	deduction for any 408 IRA amount otherwise includable in income
Indiana AIC 6-2.1-1-2	gross income includes gross receipts from all sources
Iowa ICA §422.7	federal adjusted gross income, with exclusion ($3,000 for single return, $6,000 for joint return) for qualified plans and IRAs if disabled or 55 years of age or older
Kansas K.S.A. §79-32,117	federal adjusted gross income
Kentucky KRS §141.010	federal adjusted gross income, with $35,000 exclusion for distributions from retirement plans (including 408 IRAs)
Louisiana LSA-RS §§47:293, 47:44.1	federal adjusted gross income, with $6,000 exclusion for annual retirement income received by individual 65 years or older

STATE INCOME TAXES AND IRAS (cont'd)	
Maine 36 MSRA §5121	federal adjusted gross income
Maryland ACM TG, §10-203	federal adjusted gross income
Massachusetts ALM GL, Ch. 62, §§2, 5	no tax on IRA account; tax on distributions follow federal law
Michigan MCLA §206.30	federal adjusted gross income, with exclusion ($30,000 single return; $60,000 joint return) for payments of retirement benefits (including distributions from 408 IRAs which are not premature)
Minnesota MSA §§290.01, 290.26,	no tax on 408 IRA account; federal taxable income, with exclusion for distributions of pre-1985 contributions which were includable in Minnesota gross income but not federal adjusted gross income
Mississippi MCA 27-7-16	deduction allowed for contributions to traditional IRAs
Missouri VAMS §143.124	increasing exclusion ($3,000 in 1999, $4,000 in 2000, $5,000 in 2001, $6,000 after 2001) for retirement allowances from privately funded sources, if adjusted gross income less than $32,000 for joint return, $16,000 for separate return, and $25,000 for other return
Montana MCA §§15-30-101, 15-30-111	federal adjusted gross income; with $3,600 exclusion for IRA and certain pension distributions if distribution is not premature distribution, phaseout with income above $30,000 (total phaseout at $31,800)
Nebraska RSN §77-2714.01	federal adjusted gross income
Nevada	no income tax
New Hampshire NHRSA §§77:1, 77:3	income tax on only interest and dividends
New Jersey NJSA §54A:6-28	distributions from Roth IRA follow federal law
New Mexico NMS §7-2-2	federal adjusted gross income
New York Tax Law, §612	federal adjusted gross income, with $20,000 exclusion for IRA and certain pension distributions

STATE INCOME TAXES AND IRAS (cont'd)	
North Carolina GSNC §105-134.6	$2,000 deduction for distributions from nongovernment retirement plans
North Dakota NDCC §57-38-01	federal taxable income
Ohio ORC §§5747.01, 5747.055,	federal adjusted gross income, up to $200 credit for person with retirement income
Oklahoma 68 OS §§2353, 2358	federal adjusted gross income, exemption ($3,300 in 1999; $4,400 in 2000; $5,500 thereafter) for retirement benefits received by individual 65 years or older with adjusted gross income of not more than $25,000 if filing single, head of household, or separate; $50,000 if filing joint or qualifying widow
Oregon ORS §316.157	person 62 or older receiving pension income (includes 408 IRAs) allowed credit equal to lesser of tax liability or 9% of net pension income
Pennsylvania 72 PSA §3402-303	gross income includes income from all sources
Rhode Island GLRI §44-30-12	federal adjusted gross income
South Carolina CLSC 1976 §12-6-1170	deduction for up to $3,000 ($10,000 starting at age 65) of retirement income (includes 408 IRAs) unless premature distribution
South Dakota	no income tax
Tennessee TCA §67-2-104	no tax on accumulations in Roth and Education IRAs; distributions from Roth and Education IRAs follow federal law; income tax on only interest and dividends
Texas	no income tax
Utah UCA §59-10-114	deduction ($4,800 subject to phaseout based on adjusted gross income) for amounts received under age 65 from annuity contract as retirement income (including 408 IRAs); personal retirement exemption ($7,500 subject to phaseout based on adjusted gross income) for amounts received at 65 years or older
Vermont 32 VSA §5823	federal adjusted gross income

STATE INCOME TAXES AND IRAS (cont'd)	
Virginia VC §58.1-322	federal adjusted gross income, reduced by income from 408 IRAs if contributions were deductible on federal return but were subject to income tax in another state
Washington	no income tax
West Virginia W.V.C. §11-21-12	federal adjusted gross income
Wisconsin W.S. §71.01	federal adjusted gross income
Wyoming	no income tax

STATE DEATH TAXES AND IRAS

All states collect an amount at least equal to the federal state death tax credit (see Chapter 17). Many states collect an amount equal to the federal state death tax credit and do not have a separate estate or inheritance tax (indicated by SDTC below). The remainder of the states collect an estate or inheritance tax plus the excess (if any) of the federal state death tax credit over the state estate or inheritance tax.

Of those states with an estate or inheritance tax, some states base their death tax on the federal gross estate or federal adjusted gross estate, some states have statutes regarding IRAs that parallel federal law, and some states have specific exemptions or exclusions for certain IRAs or retirement plans.

Based on Internal Revenue Code sections, 408 IRAs include traditional IRAs, SEP IRAs (including SAR-SEP IRAs), and SIMPLE IRAs; 408A IRAs include Roth IRAs; and 530 IRAs include Education IRAs.

A survey of state death taxes and IRAs follows.

STATE DEATH TAXES AND IRAS		
Alabama	Code of Ala.(1975) §§40-15-1 to 40-15-19	SDTC
Alaska	AS, Title 43.31.011 to 43.31.430	SDTC
Arizona	ARS §§42-1501 to 42-1522	SDTC
Arkansas	AC 1987 §§26-59-101 to 26-59-122	SDTC
California	Cal. Rev. & T. Code §§13,301 to 14,301	SDTC
Colorado	CRS Ch. 39-23.5-101 to 39-23.5-117	SDTC
Connecticut	C.G.S.A. §§12-340 to 12-399	federal law

STATE DEATH TAXES AND IRAS (cont'd)		
Delaware	D.C.A. Title 30 §§1301 to 1352	individual retirement plan exempt
D. Columbia	D.C.C. §§47-3701 to 47-3723	SDTC
Florida	F.S.A. §§198.01 to 198.44	SDTC
Georgia	Ga. Code Ann. §§48-12-1 to 48-12-6	SDTC
Hawaii	HRS §§236D-1 to 236D-18	SDTC
Idaho	IC §§14-401 to 14-413	SDTC
Illinois	35 ILCS 405/1	SDTC
Indiana	IC 6-4.1-1-1 et seq.	SDTC
Iowa	I.C.A. Chs. 450, 450B, 451	federal gross estate
Kansas	KSA 79-1501 to 79-1518	SDTC
Kentucky	KRS Ch. 140	408 IRAs excluded if payable to beneficiary other than executor
Louisiana	LSA-R.S. §§47:2401 to 47:2425	408 IRAs excluded if payable to beneficiary other than executor
Maine	36 MRSA §4061 et seq.	SDTC
Maryland	ACM, TG, §§7-201 to 7-234	federal law
Massachusetts	AMC c. 65C	federal gross estate
Michigan	MCLA §§205.231 et seq.	SDTC

STATE DEATH TAXES AND IRAS (cont'd)		
Minnesota	M.S.A. §§291.005 to 291.48, 289A	SDTC
Mississippi	M.C.A. 27-9-1 et seq.	federal law
Missouri	V.A.M.S. §§145.011 to 145.995	SDTC
Montana	MCA §§72-16-101 to 72-16-912	
Nebraska	RSN §§77-2001 to 77-2115, 44-503.1	federal law
Nevada	N.R.S. Ch. 375A	SDTC
New Hampshire	RSA 86, 87, 89	SDTC
New Jersey	N.J.S.A. 54:33-1 to 54:38-16	
New Mexico	NMS 7-7-1 to 7-7-20	SDTC
New York	Tax Law, §§951-999	federal law
North Carolina	GSNC §§105-32.1 et seq.	SDTC
North Dakota	N.D.C.C. §§57-37.1-01 to 57-37.1-21	SDTC
Ohio	R.C. §§5731, 2107.64	inclusion proportionate to contributions by deceased IRA owner
Oklahoma	68 O.S. §§801-825, 84 O.S. §§305-308	
Oregon	ORS §§118.100(1), (2), (3); 118.260; 305.220(1)	SDTC
Pennsylvania	72 P.S. §§9101-9196	federal law
Rhode Island	GLRI, Title 44, Chs. 22, 23	SDTC

STATE DEATH TAXES AND IRAS (cont'd)		
South Carolina	CLSC 1976 §§12-16-10 to 12-16-1950	SDTC
South Dakota	CLSD 1967, Chs. 10-40,10-40A	
Tennessee	TCA §§67-8-201 et seq.	
Texas	VTCA, Tax Code Ch. 211; V.A.T.S. Insurance Code, Art. 3.49-3	SDTC
Utah	UC 59-11-101 to 59-11-115	SDTC
Vermont	32 VSA §§7401-7402, 7441-7497	SDTC
Virginia	VC §§58.1-900 to 58.1-938	SDTC
Washington	RCW §§83.100.010 to 83.100.904	SDTC
West Virginia	W.V.C. §§11-11-1 to 11-11-42	SDTC
Wisconsin	WS §72.02	SDTC
Wyoming	W.S.A. §§39-19-101 to 39-19-111	SDTC

STATE CREDITOR EXEMPTIONS AND IRAS

States have various laws exempting certain IRAs (or portions thereof) from the claims of creditors, bankruptcy or insolvency laws, attachment, execution, seizure for debts, levy, sale under execution, garnishment, setoff, or other process or court proceedings.

Based on Internal Revenue Code sections, 408 IRAs include traditional IRAs, SEP IRAs (including SAR-SEP IRAs), and SIMPLE IRAs; 408A IRAs include Roth IRAs; and 530 IRAs include Education IRAs.

A survey of state creditor exemptions and IRAs follows.

STATE CREDITOR EXEMPTIONS AND IRAS	
Alabama Code of Ala.(1975) §19-3-1	408 IRAs exempt from bankruptcy and insolvency laws
Alaska AS, Title 09.38.017	408 and 408A IRAs exempt from creditors of participant or beneficiary (but not amounts contributed within 120 days of filing for bankruptcy)
Arizona ARS §33-1126	408 and 408A IRAs exempt from creditors of participant or beneficiary (but not amounts contributed within 120 days of filing for bankruptcy)
Arkansas AC 1987 §§16-66-218, 16-66-220	up to $20,000 (individual, or husband and wife combined) of contributions in IRAs of participant exempt in bankruptcy (but not amounts contributed within 1 year of filing for bankruptcy); IRAs (including SEP IRA) exempt from attachment, execution, and seizure for debts
California Cal. Code Civ. Proc. §704.115	IRAs exempt to the extent necessary to provide at retirement for support of judgement debtor, and spouse and dependents of judgement debtor, taking into account all resources likely to be available; IRAs not exempt from certain support obligations
Colorado CRS Ch. 13-54-102	408 IRAs exempt from attachment and execution
Connecticut C.G.S.A. §52-321a	408 IRAs exempt from creditors of participant or beneficiary (but not amounts contributed in fraudulent conveyance or within 90 days of filing of claim on which judgement entered)

STATE CREDITOR EXEMPTIONS AND IRAS (cont'd)	
Delaware D.C.A. Title 10 §4915	408 and 408A IRAs exempt from execution or attachment process
Dist. of Columbia D.C.C. §15-503	exemption available for person residing in, or earning major portion of livelihood in, D.C. for $200 per month (if provide principal support of a family, $60 otherwise) of insurance, annuity and retirement payments (but not payments within 2 months of process for attachment, levy, seizure, etc.)
Florida F.S.A. §222.21	408 and 408A IRAs exempt from claims of creditors of participant or beneficiary
Georgia Ga. Code Ann. §§18-4-22, 44-13-100	408 IRAs exempt from garnishment (other than for alimony or child support) until distributed; distributed amounts subject to general garnishment rules; payments from 408 IRAs exempt in bankruptcy to extent reasonably necessary for support of debtor and dependents of debtor
Hawaii HRS §651-124	408 IRAs exempt from claims and processes (but not contributions within 3 years of filing for bankruptcy or initiation of civil action against debtor)
Idaho IC §§11-604A, 55-1011	408 and 408A IRAs exempt from claim of judgement creditor of beneficiary or participant arising from negligent or wrongful act or omission; 408 and 408A IRAs exempt from execution, attachment or other levy (other than child support)
Illinois 735 ILCS 5/12-1006	IRAs (including SEP-IRAs) exempt from judgement, attachment, etc.
Indiana IC 34-55-10-2	interest of judgement donor domiciled in Indiana in contributions to retirement plan that were not includable in income at time of contribution, earnings thereon not includable at time of judgement, and rollovers of such contributions not includable at time of judgement are not subject to levy or sale for judgement based on a contract or a tort claim
Iowa I.C.A. 627.6	IRAs (including Roth IRAs, SEPs, SAR-SEPs, and similar plans) exempt from execution
Kansas KSA 60-2308	408 IRAs exempt from creditors of participant or beneficiary
Kentucky KRS 427.150	408 and 408A IRAs exempt from creditors of participant or beneficiary (but not amounts contributed within 120 days of filing for bankruptcy or amounts subject to court-ordered maintenance or child support)

STATE CREDITOR EXEMPTIONS AND IRAS (cont'd)	
Louisiana LSA-R.S. §§13:3881, 20:33	408 IRAs exempt from any debt other than alimony or child support to the extent attributable to contributions exempt from federal income tax at time of contributions and earnings thereon (but not amounts contributed within 1 year of filing for bankruptcy or writ of seizure)
Maine 14 MRSA §4422	408 IRAs exempt from attachment and execution to the extent reasonably necessary for support of debtor and dependents of debtor (unless fraudulently conveyed)
Maryland ACM, C&JP, §11-504	408 and 408A IRAs exempt from claims of creditors of participant or beneficiary (other than certain claims by state)
Massachusetts AMC Ch. 235, §34A	IRAs (including SEP-IRAs) exempt from insolvency law and satisfaction of debt or liability unless (1) court order re divorce, maintenance or child support, (2) court order re commission of crime, or (3) contributed within 5 years of declaration of bankruptcy or entry of judgement to extent contributions (including other retirement contributions) exceed 7% of income for such period
Michigan MCLA §600.6023	408 and 408A IRAs exempt from levy and sale under execution and bankruptcy unless (1) contributed within 120 days of filing for bankruptcy, or (2) court order re divorce, maintenance or child support
Minnesota M.S.A. §550.37	IRAs, including SEP IRAs and Roth IRAs, exempt from attachment, garnishment, etc. (other than a support order) to the extent of present value of $30,000 and amount reasonably necessary for support of debtor, or spouse or dependent of debtor (exemption applies collectively to all retirement plans)
Mississippi M.C.A. 85-3-1	408 IRAs exempt from seizure under execution or attach ment to the extent reasonably necessary for the support of the debtor or dependents of the debtor
Missouri V.A.M.S. §513.430	IRAs exempt from attachment and execution to the extent reasonably necessary for the support of the participant or beneficiary unless contributed within 3 years of filing for bankruptcy or fraudulently conveyed
Montana MCA §31-2-106	408 IRAs exempt in bankruptcy (contributions within 1 year before filing, including all retirement plans, limited to 15% of gross income)

STATE CREDITOR EXEMPTIONS AND IRAS (cont'd)	
Nebraska RSN §25-1563.01	408 IRAs exempt in bankruptcy and in the collection of a money judgement to the extent reasonably necessary for the support of the participant or beneficiary (contributions within 2 years of bankruptcy or entry of judgement may be limited)
Nevada N.R.S. 21.090	408 IRAs (including SEP-IRAs) exempt from execution
New Hampshire RSA 515:13-a	408 IRAs (including SEP-IRAs) subject to seizure, setoff, or attachment for the benefit of creditors only through legal process (notwithstanding any agreements to the contrary)
New Jersey N.J.S.A. 25:2-1	408 (and probably 408A) IRAs exempt from claims of creditors and bankruptcy unless (1) fraudulently conveyed, or (2) order for child or spousal support
New Mexico NMS 42-10-1, 42-10-2	IRAs exempt from bankruptcy and judgement creditors
New York CPLR §5205	408 and 408A IRAs exempt from money judgement unless (1) order for support, alimony, or maintenance, (2) contributed within 90 days of interposition of claim, or (3) fraudulently conveyed
North Carolina GSNC §1C-1601	408 IRAs of resident exempt from claims of creditors
North Dakota N.D.C.C. §28-22-03.1	408 IRAs (along with certain other retirement plans, life insurance, and annuities) exempt from all court process (other than order for child or spousal support) to the extent of $100,000 per plan ($200,000 for all plans) plus any additional amount reasonably necessary for the support of the resident and dependents
Ohio R.C. §2329.66	IRAs exempt from execution, garnishment, etc. to extent reasonably necessary for support of person and dependents
Oklahoma 31 O.S. §1	IRAs exempt from attachment, execution, and bankruptcy to extent of contributions to IRA not subject to federal income taxation at time of contributions and earnings thereon
Oregon ORS §§746.146 (before 2002), 23.170 (after 2001)	408 IRAs exempt from execution and all other process, but not with respect to a support obligation

STATE CREDITOR EXEMPTIONS AND IRAS (cont'd)	
Pennsylvania 42 P.S. §8124	408 IRAs exempt from attachment or execution on a judgement, but not contributions within 1 year of filing for bankruptcy or fraudulent conveyances
Rhode Island GLRI 9-26-4	408 IRA exempt from attachment, but not for court order re divorce, separate maintenance, or child support
South Carolina CLSC §15-41-30	408 IRAs exempt from attachment, levy, and sale
South Dakota CLSD 43-45-16	$250,000 exemption from process for all retirement plans, but not amounts owed South Dakota or political subdivision
Tennessee TCA §26-2-104	408 IRAs exempt from claims of creditors of the participant or beneficiary, except for Tennessee
Texas VTCA, Prop. Code 42.0021	408 and 408A IRAs exempt from creditor's claims
Utah UC 78-23-5	408 IRAs exempt from execution
Vermont 12 VSA §2740	IRAs other than Roth IRAs exempt from attachment and execution to the extent of contributions deductible for federal income tax and earnings thereon; Roth IRAs exempt from attachment and execution
Virginia VC §34-34	408 and 408A IRAs exempt (along with other retirement plans) to extent all plans would provide annual benefit of $17,500
Washington RCW §6.15.020	408, 408A, and 530 IRAs exempt from execution, attachment, etc. other than child support or court orders re maintenance or support
West Virginia W.V.C. §§38-7-7, 38-8-1, 38-10-4	408 IRAs (including SEP IRAs) exempt from attachment, levy and bankruptcy
Wisconsin WS §815.18	IRAs exempt from execution
Wyoming W.S.A. §1-20-110	IRAs exempt from execution, attachment, etc.

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